2003 ANNUAL REPORT

customer focussed

Agricore United™

Business Segment Operating Highlights

For the twelve months ended October 31 (unaudited)	2003	2002	Pro forma 2001	Pro forma 2000
Grain Handling Segment				
Industry grain shipments (000s tonnes)	20,584	24,885	32,315	na
Company grain shipments (000s tonnes)	7,411	8,797	12,493	na
Average margin per tonne	$ 20.91	$ 23.72	$ 22.53	na
Terminal handling (000s tonnes)	3,742	4,930	7,932	na
Crop Production Services Segment				
Sales ($000s)	$ 826,808	$ 676,446	$ 778,561	na
Average margin (%)	24.7%	22.0%	26.8%	na
Livestock Services Segment				
Feed				
Manufactured feed tonnes sold (000s tonnes)	816	915	845	694
Average feed margin per tonne	$ 45.94	$ 44.37	$ 46.68	$ 43.09
Livestock and other sales				
Sales and revenue from services	$ 48,028	$ 36,995	$ 36,032	$ 27,662
Gross profit and net revenue from services	$ 2,913	$ 955	$ 5,954	$ 5,064

Statistical Summary

For the twelve months ended October 31 (in thousands, except ratios and per share amounts)	2003	(unaudited) 2002	Pro forma 2001	Pro forma 2000
Operating				
Gross profit and revenue from services	$ 408,814	$ 411,384	$ 551,458	$ 547,727
EBITDA	100,531	74,725	147,622	125,272
EBIT	27,931	(377)	55,802	38,631
Earnings (loss) before income taxes, discontinued items and unusual items	(18,983)	(27,813)	4,933	(6,620)
Net earnings (loss)	(2,384)	(17,516)	(14,687)	2,126
Cash flow provided by operations	60,342	22,070	na	na
Property, plant and equipment expenditures	29,176	30,425	na	na
Financial				
Working capital	$ 176,796	$ (37,549)	$ (29,178)	na
Net investment in capital assets	688,896	728,982	790,734	na
Total assets	1,591,983	1,588,531	1,788,721	na
Funded debt (short-term financing and long-term debt)	563,946	686,703	805,990	na
Cash and cash equivalents (included in working capital)	53,919	39,117	34,275	na
Convertible debenture	105,286	—	—	—
Shareholders' equity	499,561	507,346	469,361	na
Ratios				
Current ratio	1.30	0.95	0.97	na
Leverage ratio (net funded debt to capitalization)	45.8%	56.1%	62.2%	na
Shareholder Information				
Monthly weighted average Limited Voting Common Shares outstanding	45,299	44,274	na	na
Per share:				
Net earnings (loss)	$ (0.15)	$ (0.42)	na	na
Net earnings (loss), from continuing operations	$ (0.43)	$ (0.44)	na	na
Cash flow provided by operations	$ 1.20	$ 0.47	na	na
Book value[1]	$ 10.76	$ 10.94	na	na
Trading activity (TSX):				
High	$ 8.25	$ 12.05	$ 12.50	$ 12.00
Low	$ 3.60	$ 5.50	$ 8.52	$ 7.80
Year-end	$ 8.18	$ 5.91	$ 12.05	$ 9.35
Volume (thousands of shares)	12,256	12,030	1,690	547

Additional Information

(unaudited)	2003	2002	Pro forma 2001	Pro forma 2000
Employees (full-time equivalents)	2,743	2,997	3,607	na
Number of country elevators	88	98	154	na
Licenced grain storage capacity (year-end, thousands of tonnes)				
Country elevators	1,214	1,416	2,018	2,300
Terminal elevators – wholly or beneficially owned	699	591	591	591
Terminal elevators – partially-owned	492	692	692	692

[1]Book value per share is derived by dividing the shareholders' equity at the end of the period by the total number of Limited Voting Common Shares outstanding at year-end as if the preferred shares had been converted on a 1:1 basis.

Introduction

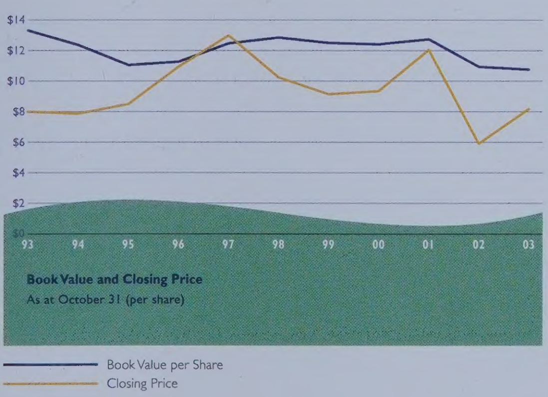
Agricore United has continued to improve its performance in key operating areas during 2003.

The Company improved major financial metrics during 2003 in line with its stated objectives.

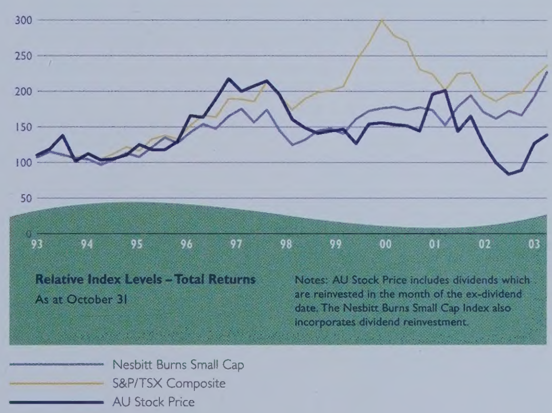
- Weighted average leverage, measured as net debt to capitalization, improved to 46% at October 31, 2003 compared to 55% a year earlier.
- The ratio of current assets to current liabilities increased to 1.3 to 1 at October 31, 2003 compared to 0.95 to 1 at October 31, 2002.
- EBITDA increased $25.8 million to $100.5 million for the year ended October 31, 2003.
- The net loss of $2.4 million for the fiscal year ended October 31, 2003 represents an improvement of $15.1 million over the loss of $17.5 million for the same 12 month period ended October 31, 2002.
- Annualized cost reductions arising from merger synergies, rationalization savings and ongoing cost containment totalled $119.4 million compared to a target of $47 million prior to the merger.

Key operating group metrics also brightened.

- Crop input sales and revenue from services increased $167 million to $856 million by October 31, 2003 compared to $689 million for the 12 months ended October 31, 2002.
- Despite the negative impact of the 2002 drought on 2003 grain shipments and therefore gross profit, the Company increased its market share of grain shipped to 36% for fiscal 2003 from 35% in 2002.
- The 2002 drought reduced livestock on feed which reduced feed tonnes sold in 2003, but average margins per tonne increased to $45.94 from $44.37.
- Agricore United Financial's approved credit exceeded $1 billion.

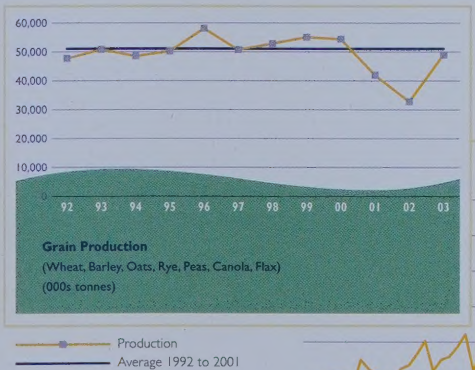


Book Value and Closing Price
As at October 31 (per share)

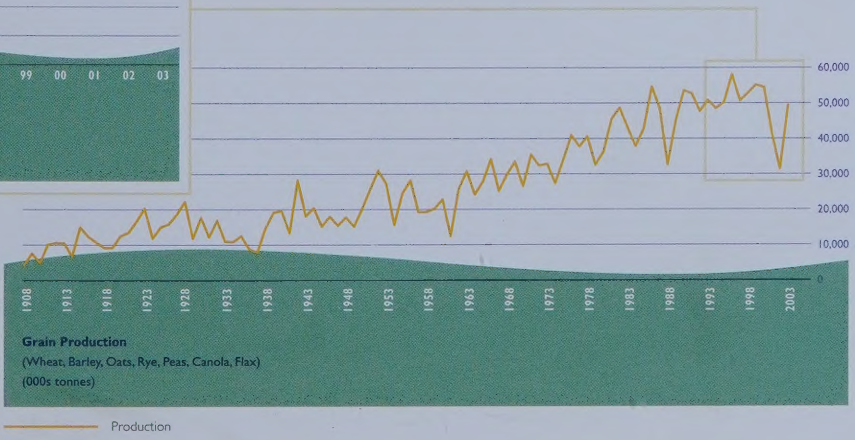


Relative Index Levels – Total Returns
As at October 31

Notes: AU Stock Price includes dividends which are reinvested in the month of the ex-dividend date. The Nesbitt Burns Small Cap Index also incorporates dividend reinvestment.



Grain Production
(Wheat, Barley, Oats, Rye, Peas, Canola, Flax)
(000s tonnes)



Grain Production
(Wheat, Barley, Oats, Rye, Peas, Canola, Flax)
(000s tonnes)

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and what it will be in the future:

a successful and cutting-edge company of people focussing on customers.”

BRIAN HAYWARD – CHIEF EXECUTIVE OFFICER, AGRICORE UNITED

"customer focus is a prime reason for Agricore United's success throughout the merger integration process. Our eye has been keenly trained on creating value in the food pipeline by connecting technology, farm customers and end-use markets."

JIM WILSON – CHAIR, AGRICORE UNITED

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"our story is lots of small stories – in this year's annual report you'll read some of them: **how our people put Agricore United's values into action.** These are stories where we have succeeded in providing customers with meaningful, collaborative and respectful service. And **through this, we have built a strong company.**"

BRIAN HAYWARD – CHIEF EXECUTIVE OFFICER, AGRICORE UNITED

VALUES IN ACTION

In last year's annual report we identified five values that are core to the Agricore United brand and the way we operate: Customer Focus, Integrity, a Respectful Workplace, Professionalism and Business Leadership. For this year's annual report we asked customers and Agricore United employees to tell us how they experience these values on a day-to-day basis.

The sketches that follow are just some of the nominated stories. They represent the way we aspire to relate to our farmer and end-use customers.

a message from the Chair

Since Agricore and UGG merged two years ago to form Agricore United, we have pursued a strategy of building a financially sound and prosperous company. The plan is working. Agricore United has strengthened its balance sheet, improved its governance practices and built a platform for profitability.

Customer focus is a prime reason for Agricore United's success throughout the merger integration process. Our eye has been keenly trained on creating value in the food pipeline by connecting technology, farm customers and end-use markets.

Agricore United has also positioned itself to capitalize on industry developments and consumer trends, whether around the world or here at home.

On the global scene, we were disappointed the Doha round of World Trade Organization (WTO) negotiations at Cancun in September 2003 did not make substantive progress. The failure to reach an agreement on agricultural issues means that Canadian farmers and industry continue to face uncertain markets, distorted by excessive government subsidies, tariffs and other forms of protectionism. On the plus side, growing prosperity in China, due in part to its accession to the WTO, augurs well for Canadian grain and livestock producers.

In North America, the growing political and consumer concern over obesity, food safety and food's nutritional attributes is bringing sharper attention to the way food is grown, handled and processed. Agricore United is out in front on many of these issues – ensuring our research, product development efforts and operational processes are geared to addressing these concerns. Our Company leads the Canadian grain industry in meeting strict international standards of food safety and handling and is also well prepared to comply with new regulations flowing from U.S. bioterrorism legislation as well as the Cartagena Protocol on Biosafety.

In Canada, the discovery of a case of bovine spongiform encephalopathy (BSE) in a single cow in Alberta represented a catastrophic blow to the Canadian beef sector. Although the Company's direct exposure is limited, the incident adversely affected many of our farm, ranch and feedlot customers. While recent progress in regaining access to beef export markets is encouraging, the full recovery of the cattle industry may be protracted.

The incident underscored the necessity for companies such as ours to pay close attention to risk management. Prior to the incident, the Company had undertaken a comprehensive review of the risks it faced in all facets of its business, with a view to determining whether appropriate control measures were in place. The Board's Risk Management Committee continually monitors these efforts to ensure that the assets, reputation and equity of the Company remain adequately safeguarded. Our vigilance will continue.

Improving Governance

The composition of our Board is such that we have intimate knowledge of the needs of our customers as well as the perspective of our corporate and individual shareholders. I believe this range of perspective and the depth of our Board's understanding of the industry in which the Company operates distinguishes us from many corporate boards and better enables us to execute our governance responsibilities in a sound, principled manner.

For many years now, the Board has sought to conform to best practice guidelines for corporate governance including those established by the TSX. As Chair of the Board, I am pleased that the September issue of the *Report on Business Magazine* rated Agricore United's corporate governance structure 67th out of 207 firms that it ranked. The company earned high marks particularly for "Board Composition" and "Shareholder Rights". The ranking suggests, however, there is room for improvement.

Accordingly, over the past year, we have engaged outside specialists to assist the board in an examination of best practices. As a consequence, the Company established a separate Nominating and Governance Committee, developed a Code of Conduct for the Board, initiated a Board evaluation process and instituted more comprehensive director training. We also engaged external counsel to review our practices and ensure full compliance with regulatory requirements.

As stewards of your investment, the Board takes the responsibility of good governance seriously. We believe our practices reflect that attitude.

Looking Forward

By reducing costs and improving the balance sheet, Agricore United has a solid foundation on which to increase profitability. In the 2003 growing season, we saw a return to a more normal crop on the Prairies, after having endured two significant drought years. Agricore United has emerged from those droughts as a leaner, more determined company.

Agricore United operates in a vital, dynamic industry. We are convinced the Company is well-positioned to pursue opportunities that will capture exceptional value for our customers and shareholders.

James M. Wilson
Chair

a message from the CEO

Success doesn't just happen, it's planned. And plans need to be executed. At Agricore United that means planning and execution at every opportunity to ensure we're focussing on what's important – our customers.

It's working. Over the past two years Agricore United has relied on solid planning – and execution – to remain competitive through changing markets, the lingering effects of drought, technology advances and increased consumer demand for food safety. And as we move forward, we plan to create value by working with customers planning for success.

During the past year our farm clients have begun to emerge from two years of drought that cut grain production by 20 percent in 2001; and a further 27 percent in 2002. We weathered drought conditions with our customers, planning where possible around the limitations of reduced yields and volumes. We established improved business systems and built relationships for the future.

Debt Reduction & Liquidity

The balance sheet is the foundation of our business house. And our house is in order.

We have a broad base of lenders – including international parties with distinctive understanding and expertise in the agricultural sector worldwide. Our term debt has staggered maturities that extend through 2023. We have sharply reduced debt from $771 million on the merger date to a current $510 million. Our weighted average leverage ratio – measuring debt compared to assets – now sits at 46 percent, compared to 58 percent at the time of the merger. By the end of fiscal 2004, we expect to hit our long-term balance sheet targets.

As the balance sheet has strengthened, we have gained untapped short-term borrowing capacity – we are $100 million ahead of last year. Agricore United's improved financial liquidity affords us the flexibility to seek out and take advantage of operational and investment opportunities. We have the means to be proactive.

Sustained Customer Support

We achieved this solely due to the support of our customers. Without this ongoing business relationship, none of the improvements would have been possible. Our market share of grain shipments and farm supplies sales has been maintained. We have earned margins on par with historical levels.

It all translates into a one-third improvement in Agricore United's earnings (EBITDA). Sales of crop inputs rebounded by $150 million in 2003, contributing over $60 million of additional gross profit. Our newest venture, Agricore United Financial, continues to expand its services to customers and grow its earnings base. Despite this increased level of activity, we found ways to reduce costs by a further $30 million. We successfully managed those things within our control – maintaining margins on grain shipped and livestock feed manufactured even while the lingering effects of the 2001 and 2002 droughts dramatically reduced grain available for shipping and livestock on feed.

It's About People

I'm constantly impressed how people – doing small things again and again – make a huge difference. People, through quiet innovative determination, are the heart of our company. People make Agricore United what it is today and what it will be in the future: a successful and cutting-edge company of people focussing on customers.

There are 2600 of us across western Canada. We are committed to sustaining our industry. We are a living, breathing part of countless communities across the Prairies. Our story is lots of small stories – in this year's annual report you'll read some of them: how our people put Agricore United's values into action. These are stories where we have succeeded in providing customers with meaningful, collaborative and respectful service. And through this, we have built a strong company.

Our collective future will include the macro-issues I mentioned at the outset – food safety and technology – but also new challenges, such as emerging competition in other parts of the world. We operate in a challenging environment. Success not only involves being able to identify the challenges, and the opportunities – but also acting upon them. I think that is what has set Agricore United apart – decisive execution in uncertain times.

To elaborate on one issue, food safety is a challenge that could easily overwhelm the agricultural industry. We see it as an opportunity for Agricore United. People want to feel secure in how food came to their table. So, food manufacturers want increasing "traceability" – to track and/or preserve the identity of a product at every stage of production from seed, to the farm, to customers. Agricore United has proactively adopted internationally recognized systems of quality control including ISO 9001 registration and Hazard Analysis Critical Control Point (HACCP) compliance for substantially all of our port terminal and country elevator operations. Our feed mills are also HACCP certified by the Canadian Food Inspection Agency. We can track grain from the farm, through to the food processor. As the only agri-business in Canada to meet this stringent international set of standards and to have adopted an effective quality management system, we're well into planning to accommodate the wishes of consumers.

We are committed to development in seed production, a future opportunity that we are ready for. Developing and selling seeds that resist disease, tolerate a wider variety of weather or that yield smooth textured flour when milled is important to both growers and end users. Tracking these products from seed to mill is part of the ISO 9000 assurance process; and tracking crops from farm gate to processor meets the needs of end users who are also facing higher standards of consumer demand for food traceability and safety.

Integration Complete

Agricore United is one company operating in one business – that business is providing farmers and end-use customers with a complete pipeline of products and services.

Improved moisture conditions through last winter and spring yielded a crop more typical of an average year and substantially improved over each of the last two drought years. Since the grain produced in one year is marketed over the next twelve months, the better harvest and generally better market conditions indicate that 2004 will be a better year for the Company's grain handling.

We have realized continuing synergies from the 2001 merger with total annualized cost reductions now exceeding $119 million, more than twice the original target. We have a business model that can handle substantially increased levels of activity with only marginal expense increases.

But we will not forget that people were the source of success in the merger. We planned. We executed.

My vision is that we redirect that energy towards creating value in the market – to work with our customers for mutual advantage. We've weathered the storm of the past two years. It's a challenging market out there for anyone involved in the food industry. Agricore United is poised to seek out and capitalize on the opportunities that are available. We will apply our sense of commitment and our brain power to build value for customers.

Brian Hayward
Chief Executive Officer

"Eric demonstrates his customer focus every time he comes to the ranch. If I need something, he gets it over here right away.

He goes that extra mile so often."

KIM LAMB — BALZAC, ALBERTA

Livestock farmers John and Kim Lamb think their relationship with Agricore United's Unifeed Division is key to running a successful business. That's true whether the business is 500 acres or 5,000 acres, like Lamb Cattle Co. near Balzac, Alberta.

And relationships are about people. People like Customer Service Representative (CSR) Eric Andrew and his colleagues throughout the company, who go to work every day intent on providing solutions for farmers with superior recommendations and effective communications.

For the Lambs, managing their sprawling livestock operation puts great demands on their time and resources, and they know Eric is there to help them. He exemplifies the kind of customer service they've come to rely on from Agricore United.

"Eric demonstrates his customer focus every time he comes to the ranch. If I need something, he gets it over here right away. He goes that extra mile so often," says Kim. John and Kim view a reliable customer service representative as someone who understands their needs. "Time is very valuable to us. We rely on Eric to look after all of our needs. We either order over the phone or he comes out to the farm. That's just how he is."

Whether for advice, or a sounding board for their own ideas, John and Kim know they can go to their CSR. They trust his knowledge of the markets and advice on cost efficiencies to help them make sound business decisions. Eric also gives them direct access to Agricore United's knowledge network. "There has never been a time when Eric didn't have an answer for us. He always checks into things and gets back to us right away."

John and Kim like the honesty and openness that they share with Eric and Agricore United. Their trust goes beyond just knowing the job will get done, but that it'll be done right. "We need someone we can depend on and someone who knows our business. Eric is honest and trustworthy, and he knows what he's doing. For us it's the whole package, and we need that from people we do business with."

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BEN HOFER – RUSH LAKE, SASKATCHEWAN

Honesty and integrity are important to Ben Hofer, farm boss for the Main Centre Hutterian Brethren Colony of Rush Lake, Saskatchewan. That's why he values his relationship with Agricore United Customer Service Representative (CSR) Barb Thick.

Ben manages a large-scale 20,000-acre operation that produces 16,000 acres of grain and canola, runs 160 range cattle and maintains a 50-head dairy cow herd. In his role, Ben supervises a team of 8 to 10 people who live and work on the farm. A total of about 110 people live on the farm.

With such a large operation to manage, Ben relies on the breadth of Agricore United's agronomic knowledge network to help him run the business. "We're looking for help with many things on our farm. Barb stays informed through her job and keeps an eye on our crops. She comes out to monitor several times a year, doing soil and nutrition testing and checking for weeds."

"We go to Agricore United because we know they give good advice," says Ben. The integrity that CSRs like Barb display contributes to Agricore United's success and ultimately to the success of our customers. They know she wants them to succeed, so they trust and rely on her advice.

Ben also looks to Barb for timely, reliable information. "Agricore United representatives go out of their way to get the information we need, and they always get back to us." He recalls a weed control tip from Barb. "She advised me to hold off spraying my crop. I listened and the crop turned out well."

Barb exemplifies the integrity of Agricore United Customer Service Representatives, standing behind the products and services they provide and standing up for customers' needs, no matter the size of their operation.

For Ben, working with Barb goes beyond pure business. He considers her to be a trusted advisor who cares about the farm by spending time with him and learning about the operation and ongoing crop monitoring. "Barb is out here a lot and knows the farm and the land. That's what I like about her. I hope to work with her for many years to come."

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"values are important.

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STAN COCHRANE — GRISWOLD, MANITOBA

Agricore United is committed to providing a respectful workplace for both its employees and its customers. That means facilities are connected to a network of people, tools and knowledge characterized by safety, teamwork, trust and diversity, as well as recognition for employee contributions to the goals of the organization. But for Stan Cochrane, a grain and cattle farmer based just north of Griswold, Manitoba, it goes one step further. For Stan, a respectful workplace is about community.

Stan, his wife Pat and their two sons, Kyle and Darby manage a mixed farm of grain and Limousin cattle. He respects the advice and customer support he gets from Agricore United's Customer Service Representatives (CSRs) like Ken Cross. Knowing Agricore United CSRs live in and care about the same community as their customers goes a long way in building trust and respect with customers like Stan. In fact, Stan describes his relationship with Agricore United as a partnership. "When buying chemicals, fertilizers and merchandising our grain, we don't really shop around. We rely on Ken to give us the best advice and price he can."

When a CSR like Ken has a close connection with the community, Stan believes that builds credibility. "He's from the area, and he knows the people, he's involved in what's going on and tries to treat everyone fairly."

Agricore United representatives draw on the knowledge base of the company to stay on top of the markets and keep their customers informed. "Values are important. You have to be able to know that you can trust the person that you are working with," says Stan.

The respect Stan and Ken have for one another in their working relationship begins at the community level. "We've worked together for several years. He used to coach my oldest son in hockey and sponsors a number of local initiatives. We wanted to help support him in his business, and it's working for us."

It's CSRs like Ken who bring to life the Agricore United commitment to respect in the workplace – through their strong customer service orientation and focus on helping customers.

Knowing Agricore United CSRs live in and care about the same community as their customers goes a long way in building trust and respect with customers like Stan.

“ my needs change throughout the year, but

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to come through for me. If he doesn’t have the information, he’ll ask other experts at Agricore United to get the right information. ”

DAN GRYBA – MELFORT, SASKATCHEWAN

Saskatchewan farmer Dan Gryba believes knowledge and innovation are keys to the success of his farm. That's why he looks to his Agricore United Customer Service Representative, Todd Ilnisky, for advice on matters ranging from grain marketing to identifying identity preserved (IP) cropping opportunities.

For the past five years, Dan has depended on Todd's professionalism and knowledge to help him farm in innovative ways. Dan and his family run a third generation grain farm near Yellow Creek in north central Saskatchewan. They rely on their local Agricore United outlet to provide crop inputs complete with knowledge, information and service. "Todd gives me the best information he can, based on his knowledge and resources," says Dan. "We have a good working relationship. He's very professional and focussed on my farm business. He looks out for my best interests."

"My needs change throughout the year, but I can always count on Todd to come through for me. If he doesn't have the information, he'll ask other experts at Agricore United to get the right information. Depending on the situation, I might need advice on new products, uses and different techniques. I appreciate Todd's advice because it helps us be innovative."

Agricore United Customer Service Representatives across western Canada are professionals and always on the lookout for ways to help their customers improve their bottom line. A growing area that benefits both farmer and consumer is in identity preserved crops. Todd helped Dan get involved in IP production when Agricore United offered production contracts for a new variety of malt barley. "Under these contracts, Agricore United has sourced a market for my grain and I get a higher return," says Dan.

Agricore United's IP program gives growers access to new market opportunities while supplying end users with products that meet their specific needs, explains Al Morris, a Senior Merchant for Agricore United. "More and more, end users and consumers want to know where their grain is coming from and how it's grown. This is the future of grain production, and we want to give our farmer customers the opportunity to take advantage of this specialized field."

"Customer Service Representatives like Todd Ilnisky play an important role in helping Agricore United farm customers make the most of these opportunities," says Morris.

Agricore United Customer Service Representatives across western Canada are professionals and always on the lookout for ways to help their customers improve their bottom line.

“it’s the dedication of people like Rick to the ISO 9000 process, a strong belief in the value it provides customers and the success that it will bring to Agricore United that has really helped us attain certification.”

ROB WILLOUGHBY – AGRICORE UNITED

Quality is taking on a whole new meaning in the agricultural industry, with higher expectations for where and how food is produced right through the system of how it is graded, handled and delivered to the end-use customer and on to consumers.

As one of the only agri-business firms in Canada with International Standards Organization (ISO) 9000 certification, specifically ISO 9001: 2000 for processing and export of grains, oilseeds and special crops, Agricore United is a leader in offering its farmer and end-use customers the marketing advantage of quality assurance. Agricore United is ISO 9000 certified for all distribution centres, high throughput elevators and port terminals.

Employees all across the Agricore United network have contributed to meeting the rigourous international set of standards and adopting an effective quality management system required for ISO 9000 certification. Western Region Co-ordinator Rick Danderfer is one of those contributors. "Quite simply, the program helps keep track of where grain comes from and the chain it moves through to reach end-use markets. Quality is assured through processes that govern equipment maintenance, grain testing and sampling, and documentation of results."

Rick was a member of the quality standards development team and continues to be involved in training. He also audits the system currently in place. Auditing occurs two or three times annually to ensure everyone involved in the program is following the process properly.

"It's the dedication of people like Rick to the ISO 9000 process, a strong belief in the value it provides customers and the success that it will bring to Agricore United that has really helped us attain certification," says Rob Willoughby, Territory Manager. "That kind of passion and dedication really helps in communication with everyone involved."

Acheson Terminal General Manager Clifford Bell says leadership has contributed greatly to the success of the program. "I work closely with Rick on procedures. He has a strong knowledge base of the program and the products. He also knows each of our roles and our needs and helps us make the process work."

The efforts of Rick and other members of the development team are paying dividends for Agricore United customers, says Assistant Operations Manager Harry Hahn. "End users are certainly seeing the benefits of the program. Providing quality assurance gives customers confidence in the products we offer."

Farmer customers are also seeing the benefits. "Grain agreements and scheduled deliveries help producers plan their business better," says Hahn.

Agricore United is a leader in offering its farmer and end-use customers the marketing advantage of quality assurance.

management's

Discussion and Analysis

The following discussion and analysis should be read in conjunction with the financial statements and notes to the financial statements on pages 31 to 45 of this report.

On November 1, 2001, United Grain Growers Limited ("UGG") completed its merger (the "Merger") with Agricore Cooperative Ltd. ("Agricore") to form Agricore United (the "Company").

In June 2002, Agricore United announced a change in its financial year-end from July 31 to October 31 commencing in 2002. Accordingly, the Company's audited annual financial statements at October 31, 2002 include the operating results for the 15 month period commencing August 1, 2001, which also includes the first full year of operations of the combined Company since the Merger.

Certain unaudited financial information for the 12 months ended October 31, 2002 have been presented below in order to facilitate comparative analysis of the results. Unless otherwise indicated, references to financial information for the 2002 year are to financial information for the Company for the 12 month period ended October 31, 2002.

Results of Operations

Highlights

- CONTINUED IMPROVEMENT IN LEVERAGE RATIO – The Company's total net funded debt at October 31, 2003 (excluding the convertible debenture) was $510 million compared with $648 million at October 31, 2002. The Company reduced its weighted average leverage ratio (net funded debt to capitalization) to 46% at October 31, 2003 from 55% at October 31, 2002.
- IMPROVED LIQUIDITY YEAR-OVER-YEAR – The Company's ratio of current assets to current liabilities increased to 1.3 times at October 31, 2003 from 0.95 times at October 31, 2002. The Company's available uncommitted short-term credit increased about $100 million from October 31, 2002 to October 31, 2003.
- INCREASED CROP INPUT SALES AND GROSS PROFIT – Crop input sales and revenue from services increased $167 million to $856 million for the fiscal year ended October 31, 2003 compared to $689 million for the 12 months ended October 31, 2002 – reflecting both a recovery in sales of crop protection products and increased crop nutrient prices. Gross profit increased $56 million to $204.5 million for the fiscal year ended October 31, 2003 yielding an average margin on sales of 25% (compared to 22% for the 12 months ended October 31, 2002).
- GRAIN HANDLING TURNS THE CORNER – Grain Handling gross profit declined $53.7 million for the year ended October 31, 2003 due to lower industry-wide grain shipments following the 2002 drought. However, grain shipments for the Company increased 61% in the most recent quarter compared to the same quarter last year (industry shipments increased 22% in the quarter) due to the increased production now available from the 2003 crop.
- IMPROVED EBITDA AND EBIT[1] – EBITDA increased $25.8 million to $100.5 million for the fiscal year ended October 31, 2003 – improvements in sales of crop inputs and further reductions of $28.4 million in operating, general and administrative expenses more than offsetting the decline in grain handling gross profit arising from the 2002 drought.
- SALE OF FARM BUSINESS COMMUNICATIONS DIVISION – The sale of the Farm Business Communications division on October 9, 2003 generated an after-tax gain of $11.9 million or $0.26 per share. The gain on sale and the after-tax earnings from operations of $821,000 contributed earnings from discontinued operations of $12.7 million or $0.28 per share for the fiscal year ended October 31, 2003.
- IMPROVED EARNINGS AND CASH FLOW FROM OPERATIONS – Although negatively impacted by the impact of the 2002 drought on 2003 grain shipments and profitability, the net loss of $2.4 million (a loss of $0.15 per share, including discontinued operations) for the fiscal year ended October 31, 2003 was $15.1 million better than the net loss of $17.5 million (loss of $0.42 per share, including discontinued operations) for the 12 months ended October 31, 2002 (net loss of $23.5 million or a loss per share of $0.64 for the 15 month fiscal period ended October 31, 2002). Cash flow provided by operations of $60.3 million (or $1.20 per share) for the fiscal year ended October 31, 2003 increased $38.3 million from $22 million (or $0.47 per share) for the same 12 months last year.

Sales and Other Key Operating Metrics

Sales and revenue from services for the year ended October 31, 2003 increased slightly to $2.7 billion, compared to 2002, driven primarily by increased crop input sales and higher grain prices offset by lower Grain Handling volumes and lower Livestock Services feed tonnes sold. As a result of a change in accounting presentation adopted in accordance with EIC 123 issued by the Canadian Institute of Chartered Accountants, the Company no longer records the value of grain billed to the Canadian Wheat Board ("CWB") as sales, but rather only the tariff rates charged for handling grain purchased on the CWB's behalf. This change in accounting presentation has no impact on the gross profit and revenue from services otherwise reported by the Company.

[1] Earnings before interest, taxes, depreciation and amortization, gains or losses on asset disposals, discontinued operations net of tax and unusual items ("EBITDA") and earnings before gains or losses on asset disposals, interest, taxes, discontinued operations net of tax and unusual items ("EBIT") are provided to assist investors in determining the ability of the Company to generate cash from operations to cover financial charges before income and expense items from investing activities, income taxes and items not considered to be in the ordinary course of business. Reconciliation of such measures to net income are provided in the Consolidated Statements of Earnings and Retained Earnings and Note 20 to the Consolidated Financial Statements included on pages 31 to 45. The items are excluded in the determination of such measures as they are non-cash in nature, income taxes, financing charges or are otherwise not considered to be in the ordinary course of business. EBITDA and EBIT provide important management information concerning business segment performance since the Company does not allocate financing charges or income taxes to these individual segments. Such measures should not be considered in isolation of or as a substitute for (i) net income or loss, as an indicator of the Company's operating performance or (ii) cash flows from operating, investing and financing activities, as a measure of the Company's liquidity. Such measures do not have any standardized meanings prescribed by Canadian generally accepted accounting principles ("GAAP") and are therefore unlikely to be comparable to similar measures presented by other companies.

For the twelve months ended October 31		2003		Unaudited 2002
Grain Handling Segment				
Shipments (million tonnes)		7.4		8.8
Average margin per tonne	$	20.91	$	23.72
Crop Production Services Segment				
Crop Production Services sales ($ millions)	$	826.8	$	676.4
Average margin (%)		24.7%		22.0%
Livestock Services Segment				
Manufactured feed tonnes sold (million tonnes)		0.8		0.9
Manufactured feed gross profit ($ millions)	$	37.5	$	40.6
Average feed margin per tonne	$	45.94	$	44.37
Sale of livestock and other revenue from services ($ millions)	$	48.0	$	37.0
Livestock gross profit and other revenues ($ millions)	$	2.9		0.9

For the twelve months ended October 31 *($ millions)*		2003		Unaudited 2002[1]
Gross profit and revenue from services				
Grain Handling	$	155.0	$	208.7
Crop Production Services		204.5		148.4
Livestock Services		40.4		41.5
Financial Markets & Other Investments		8.9		12.8
Corporate		—		
	$	408.8	$	411.4
Operating general and administrative expenses				
Grain Handling	$	136.4	$	145.2
Crop Production Services		106.9		109.5
Livestock Services		30.7		31.1
Financial Markets & Other Investments		—		3.0
Corporate		34.3		47.9
	$	308.3	$	336.7
EBITDA				
Grain Handling	$	18.6	$	63.5
Crop Production Services		97.6		38.9
Livestock Services		9.7		10.4
Financial Markets & Other Investments		8.9		9.8
Corporate		(34.3)		(47.9)
	$	100.5	$	74.7
EBIT				
Grain Handling	$	(17.1)	$	26.4
Crop Production Services		73.2		15.5
Livestock Services		6.5		7.2
Financial Markets & Other Investments		8.9		7.7
Corporate		(43.6)		(57.2)
	$	27.9	$	(0.4)

[1]Twelve months – Unaudited 2002 represents the unaudited consolidated operating results for Agricore United for the 12 months ended October 31, 2002. This is obtained by deducting from the audited operating results for Agricore United for the 15 months ended October 31, 2002, the unaudited operating results for UGG for the quarter ended October 31, 2001. See Note 27 to the Financial Statements.

Business Segment Financial Results

Crop Production Services

Agricore United manufactures, distributes and offers crop production support for a variety of inputs, including crop nutrition and crop protection products, seed and agronomic services through 320 Customer Service Representatives (CSRs) operating from the Company's network of 88 country elevators and 119 stand-alone crop production centres. Crop nutrition includes soil nutrient assessment, fertility recommendations and sales of fertilizer products. The Company offers more than 250 crop protection products including herbicides and insecticides and provides custom application services directly or through third party contractors. Certified seed varieties, such as those offered by Agricore United's exclusive seed brand, Proven® Seed, offer improved yields and other value-added traits. The Company provides agricultural consulting and crop planning services to help farmers meet their production goals or address other specific needs. CSRs are supported by Agriculture Crop Enhancement (ACE) specialists who provide technical advice on crop production issues and the most profitable crop practices.

The sale of crop nutrients, crop protection products and seed increased $150.4 million (22%) for the fiscal year ended October 31, 2003 compared with the same 12 month period in 2002. Crop nutrient tonnes sold only increased by about 100,000 tonnes to 1.1 million tonnes for fiscal 2003 compared to the same period in 2002. Therefore, the bulk of the $113 million increase in crop nutrients sales in 2003 was a result of underlying price increases related to the higher cost of natural gas, the primary component in the manufacture of fertilizer. Crop protection product sales increased $38 million (15%) for the fiscal year ended October 31, 2003, substantially recovering the $56 million decline in sales in the prior year arising from the 2002 drought. A decline in crop protection product sales in the quarter ended October 31, 2003 – as a result of the dry summer conditions which negatively affected late season sales – suppressed final quarter sales by about $10 million

compared to 2001. Seed and other sales declined slightly by $1 million in 2003 compared to the same period in 2002.

Gross profit and revenue from services for fiscal 2003 increased $56 million (38%) to $204.5 million from the 2002 level of $148.4 million. Average margins on sales were 24.7% in fiscal 2003, representing a 2.7% margin increase from 2002 levels, primarily as a result of higher margins on crop nutrients and crop protection products and an increase in the provision of agronomic services.

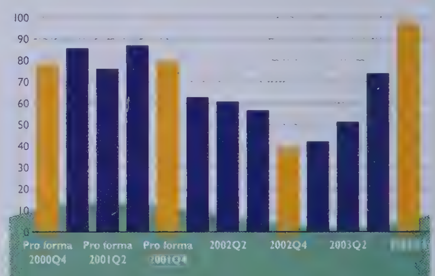
Crop Production Services incurred operating, general and administrative ("OG&A") expenses of $106.9 million for the fiscal year ended October 31, 2003 compared to $109.5 million during the same 12 month period in 2002. The Company achieved this modest $2.6 million (2.4%) reduction, due to merger savings and general cost containment, notwithstanding the significant increase in sales activity that occurred during 2003.

Grain Handling and Merchandising

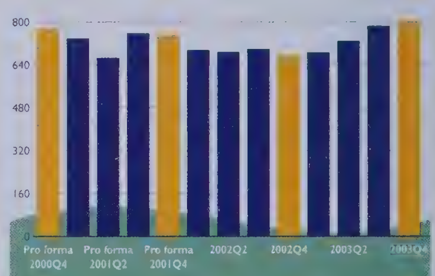
Grain Handling and Merchandising encompasses contracting, marketing and transporting grain from the farm to end-use markets utilizing the Company's 88 country grain elevator locations, 119 crop production centres and full or partial ownership of six port terminals. Grain Handling begins with moving the grain from the farmer's field to the Company's geographically-dispersed and strategically located country elevator network. On delivery to the country elevator or unload at port terminals, the grain is weighed and the quality is assessed. Grain is shipped from the country elevator to a domestic, U.S. or Mexican customer (such as a flour mill or maltster) or to a port terminal for export to other end-use customers.

Industry grain shipments of the major grains as reported by the Canadian Grain Commission ("CGC") declined by 4.3 million tonnes (17%) to 20.6 million tonnes for the 12 months ended October 31, 2003 compared to 24.9 million tonnes for the same 12 month period in 2002 (and 32.3 million tonnes in 2001) as the impact of the 2002 drought on grain shipments in 2003 finally ran its course. Industry shipments for the most recent quarter ended October 31, 2003 of 7.1 million tonnes exceeded shipments for the quarter ended October 31, 2002 of 5.8 million tonnes by 22% and represented about 87% of grain shipments in the same quarter in 2000 (prior to the effects of either the 2001 or 2002 droughts). The improved shipping in the most recent quarter of 2003 reflects the higher western Canada grain production from the 2003 growing season which is currently estimated by Statistics Canada to be 45.7 million tonnes or 95% of the 10 year average from 1992 to 2001 (i.e. excluding the effects of the devastating 2002 drought).

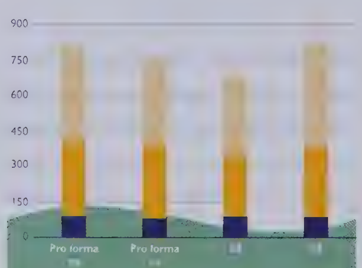
Consistent with the reduction in industry shipments attributable to the 2002 drought, Agricore United's grain shipments declined by 1.4 million tonnes (16%) to 7.4 million tonnes for the fiscal year ended October 31, 2003 compared to 8.8 million tonnes for the same period in 2002. Company shipments for the quarter ended October 31, 2003 of 2.8 million tonnes exceeded shipments for the same quarter last year of 1.7 million tonnes by 61% and



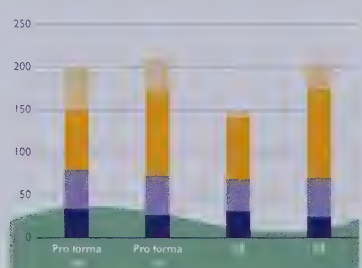
Crop Production Services – EBITDA
($ millions)
Trailing twelve months ended



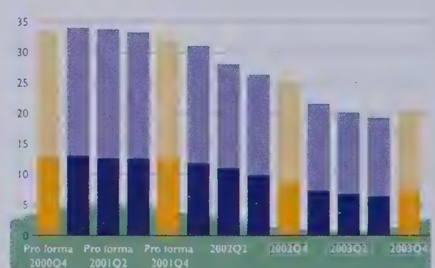
Crop Production Services – Sales
($ millions)
Trailing twelve months ended



Crop Production Services – Sales
($ millions)
Years ended October 31



Crop Production Services – Gross Margin
($ millions)
Years ended October 31



Grain Handling – Shipments
($ millions)
Trailing twelve months ended

represented 96% of the pro forma[2] level achieved in the quarter ended October 31, 2000. Accordingly, the ratio of the Company's shipments to industry shipments for the quarter ended October 31, 2003 was 39% (2002 – 30%) and for the 2003 fiscal year was 36% (2002 – 35%).

The Company handled 3.7 million tonnes of grain at its port terminals for the fiscal year ended October 31, 2003 – a reduction of 1.2 million tonnes (24%) from 4.9 million tonnes handled for the same 12 month period in 2002. The Company handled 1.6 million tonnes for the quarter ended October 31, 2003, an increase of 889,000 tonnes over the 714,000 tonnes handled for the same quarter in 2002. The decline in port terminal handling was more significant earlier in the current fiscal year due to lower shipping arising from the 2002 drought as well as the closure of all Vancouver port grain terminal operations from August 26 to December 16, 2002 – the result of a labour dispute. Consequently, about 50% of the Company's grain shipments were handled through its port terminal operations in 2003 compared to 56% in 2002.

Grain Handling and Merchandising gross profit and revenue from services of $155 million for the fiscal year ended October 31, 2003 declined by $53.7 million (26%) from $208.7 million for the 12 months ended October 31, 2002. The average margin of $20.91 per tonne for the fiscal year ended October 31, 2003 declined by $2.81 per tonne (12%) from $23.72 per tonne for the same period last year. The decline in the margin per tonne reflects:

- a reduced proportion of the grain shipments handled through the Company's port terminals in 2003 compared to 2002, resulting in a loss of terminal handling revenue;
- reduced margins on tendered CWB grain in fiscal 2003;
- competitive pressures to handle a dramatically reduced supply of grain following the 2002 drought; and
- more recently, an increase in vessel freight costs due to increased world-wide competition for a limited supply of ocean-going vessels.

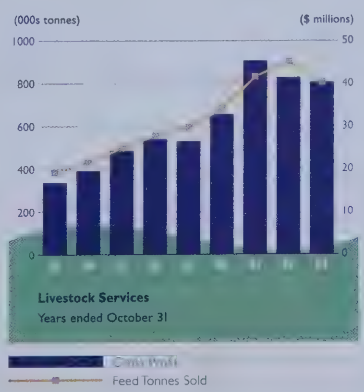
Grain Handling and Merchandising OG&A expenses for fiscal 2003 of $136.4 million were reduced by $8.8 million (6%) from the $145.2 million incurred during the same period in 2002 – despite a significant increase in these expenses (of $7.4 million) in the quarter ended October 31, 2003, the result of much higher throughput this year and the effect of the Vancouver terminal labour dispute last year (from August to December 2002). Nevertheless, OG&A expenses do not vary in direct proportion to the volume of grain handled due to the relatively high fixed cost nature of the grain handling system.

As a result of the lower volume of grain handled and therefore gross profit, EBITDA declined by $44.9 million to $18.6 million for fiscal 2003 compared with $63.5 million for the 12 months ended October 31, 2002. Depreciation and amortization of $35.7 million in fiscal 2003 declined by $1.5 million from $37.1 million in 2002. Accordingly, Grain Handling and Merchandising generated an EBIT loss of $17.1 million for fiscal 2003 compared to EBIT of $26.4 million for the same period in 2002.

Livestock Services

The Company's Livestock Services division formulates and manufactures feed for swine, dairy and beef cattle, poultry and other specialty feeds from seven feed mills and two pre-mix manufacturing centres. The manufacture of complete feeds and supplements provides feed formulations containing all or a significant portion of the nutritional requirements of the livestock being fed. The manufacturer of pre-mixes supplies a base mix of vitamins and minerals to livestock producers who do their own complete feed manufacturing. Agricore United's feedmills comply with all federal regulations and are all certified compliant with Hazard Analysis Critical Control Point (HACCP) guidelines, the internationally recognized system of quality control management for food safety. Livestock Services also engages in marketing swine and providing a variety of other ancillary services to its customers including secured financing.

Manufactured feed sales of 816,000 tonnes for the fiscal year ended October 31, 2003 declined by 99,000 tonnes from 915,000 tonnes for the same 12 month period last year – the decline began early in the fiscal year with the liquidation of beef cattle on feed as a result of the 2002 drought. The discovery of a single case of bovine spongiform encephalopathy ("BSE") in Alberta resulted in temporary import bans on Canadian ruminants and ruminant products by the United States and other countries beginning May 20, 2003. While these trade bans did not immediately impact the Company's feed operations, the slow pace at which these bans have been lifted by the United States and Mexico (beginning August 8, 2003), and by other countries more recently, has contributed to a slow recovery of the livestock industry in western Canada which in turn has continued to suppress the recovery of the Company's feed sales.



[2] Pro forma financial information is provided to assist investors in comparing results between periods after giving effect to the Merger. In particular, results for UGG from comparable periods in fiscal 2001 have been adjusted to give effect to the Merger as if it had occurred prior to November 1, 2001 and, accordingly, reflect the operating results of Agricore as if it had been owned for the same number of days in the comparable prior periods. Pro forma financial information is not intended to reflect the results of operations which would have actually resulted had the Merger occurred prior to November 1, 2001, does not have a standardized meaning in GAAP and the information provided is therefore unlikely to be comparable to similar measures presented by other companies.

Despite the decline in feed tonnes sold, Livestock Services gross profit and revenue from services of $40.4 million for the fiscal year ended October 31, 2003 declined by only $1.1 million from $41.5 million in 2002. Average feed margins increased to $45.94 per tonne for fiscal 2003 from $44.37 per tonne for the 12 months ended October 31, 2002. Feed prices tend to fluctuate in response to input prices and accordingly, the profitability of feed manufacturing tends to be more closely correlated to manufactured tonnes sold rather than sales values.

Swine sales increased by $13.1 million to $44.8 million in fiscal 2003 from $31.6 million for the same period in 2002. Gross profit on swine sales improved $1.2 million for fiscal 2003. Other revenues increased modestly by $738,000 compared to the same period last year, largely due to improved performance by the Company's investment in The Puratone Corporation, the second largest hog producer in Manitoba.

The Company reduced its Livestock Services OG&A expenses by $400,000 in 2003 compared to 2002. Consequently, EBITDA declined $700,000 to $9.7 million in 2003 from $10.4 million in 2002 and EBIT declined by a similar amount.

Financial Markets & Other Investments

Through its alliance with a Canadian chartered bank, the Company's branded trade credit financing vehicle, Agricore United Financial ("AU Financial"), provides the farmer customer with increased flexibility on credit repayment terms at competitive rates for unsecured trade credit. The Company continues to directly manage the customer relationship and receives an agency fee for performing front-end credit review and management services. During the fiscal year, the approved credit offered under this financing vehicle exceeded $1 billion with customer usage peaking at $352 million at July 31, 2003, an increase of $66 million over July 31, 2002.

Other Investments include the Company's ongoing equity interest in other complementary businesses including an insurance company and insurance brokerage firm.

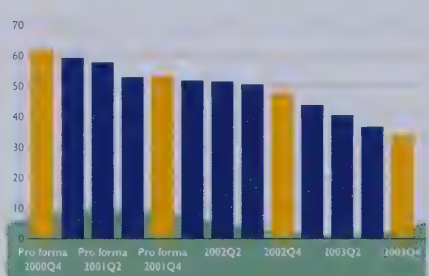
As a result of the expansion of AU Financial in February 2002, revenue increased $2.5 million in fiscal 2003 compared to the 12 months ended October 31, 2002. This improvement was supplemented by a $400,000 increase in other equity investments and revenue from services but offset by a reduction of $6.7 million in gross profit following the Company's divestiture of its investment in CanAmera Foods in May 2002. Accordingly, gross profit and revenue from services declined $3.8 million for the year ended October 31, 2003 compared to last year.

The disposition of CanAmera Foods also eliminated $3 million in OG&A expenses, limiting the reduction in EBITDA for Financial Markets and Other Investments to $843,000, and reduced depreciation and amortization by $2.1 million. As a result, EBIT for the segment increased by $1.2 million to $8.9 million for the year ended October 31, 2003.

Corporate Expenses

Supporting the Company's other operating segments, the Corporate division provides a variety of centralized functions including, human resources, management information systems development and support, treasury, financial reporting, taxation, legal, risk management, shareholder and member services and investor relations.

Corporate OG&A expenses were reduced by $13.6 million or 28% from $47.9 million in 2002 to $34.3 million for the 12 months ended October 31, 2003. Expense reductions are attributable to lower management information system costs (arising from the consolidation of two technology platforms in August 2002) and lower property related costs. Fewer equivalent full-time staff and related payroll costs accounted for $3.5 million or 25% of the total reductions in OG&A expenses.



Corporate – OG&A Expenses
($ millions)
Trailing twelve months ended

Merger Synergies, Rationalization Savings and General Cost Containment

The Company's prospectus dated December 11, 2001 projected sustainable annual cost savings arising from the Merger of $47 million by July 31, 2004 relative to pro forma expenses for the pre-Merger period. In its 2002 annual report, the Company reported a decline in OG&A expenses, for the first 12 months ended October 31, 2002 following the Merger, of $67.2 million and total cash expense reductions (including interest expense) of $75.7 million. After depreciation and amortization, total costs declined $92.3 million during that period.

The annualized effect of these cost reductions arising from Merger synergies, rationalization savings and ongoing cost containment for the year ended October 31, 2003 was $95.6 million in OG&A expenses, $100.2 million including interest and securitization expenses and $119.4 million in total costs (including depreciation and amortization).

As at October 31, 2003, the Company employed the equivalent of 2,743 full-time staff, a reduction equivalent to 254 full-time staff (8%) since October 31, 2002 and 864 staff (24%) since the Merger. Approximately $42 million of the $96 million reduction in OG&A expenses is attributable to reductions in payroll and related costs.

Consolidated Financial Results

For the twelve months ended October 31 *($ millions)*	2003	Unaudited 2002[1]
Gross profit and net revenue from services	$ 408.8	$ 411.4
Operating, general and administrative expenses	(308.3)	(336.7)
EBITDA	100.5	74.7
Depreciation and amortization	(72.6)	(75.1)
EBIT	27.9	(0.4)
Gains on disposal of assets	1.5	17.2
Interest and securitization expenses	(48.4)	(44.6)
	(19.0)	(27.8)
Discontinued operations, net of income tax	12.7	1.0
Unusual items	—	(4.2)
Recovery of income taxes:		
On unusual items	—	1.5
On loss from continuing operations before unusual items	3.9	12.0
Net loss for the period	$ (2.4)	$ (17.5)

[1] *Twelve months – Unaudited 2002 represents the unaudited consolidated operating results for Agricore United for the 12 months ended October 31, 2002. This is obtained by deducting from the audited operating results for Agricore United for the 15 months ended October 31, 2002, the unaudited operating results for UGG for the quarter ended October 31, 2001. See Note 27 to the Financial Statements.*

Gross Profit and Net Revenue from Services, EBITDA and EBIT

Gross profit and net revenue from services declined modestly ($2.6 million) to $408.8 million for the fiscal year ended October 31, 2003 from $411.4 million for the 12 months ended October 31, 2002. Increased gross profit on higher sales of crop inputs more than offset lower gross profit from a 1.4 million tonne decline in grain shipments arising from industry-wide reductions in grain shipping following the 2002 drought. The remaining decline in gross profit in fiscal 2003 as compared to 2002 was entirely attributable to the disposition of the Company's interest in CanAmera Foods effective May 31, 2002.

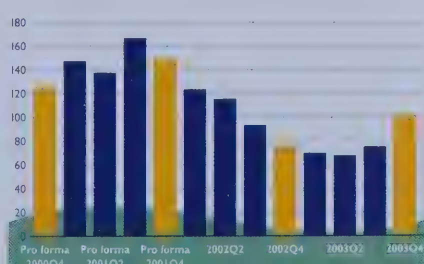
OG&A expenses, excluding depreciation and amortization, were reduced by $28.4 million or 8% for the fiscal year ended October 31, 2003 over the same 12 month period in 2002 largely due to reduced Grain Handling and Corporate expenses.

Depreciation and amortization of $72.6 million for the year ended October 31, 2003 was $2.5 million or 3% lower than the equivalent period last year. Lower depreciation associated with ongoing decommissioning of the Company's elevator network was partially offset by increased amortization of deferred financing costs incurred as a result of debt restructuring completed in fiscal 2003.

EBIT increased $28.3 million to $27.9 million for the fiscal year ended October 31, 2003 from a loss of $377,000 for the same 12 month period last year – entirely the result of the reduction in OG&A expenses, depreciation and amortization.

Gain on disposal of assets

The gain on disposal of assets of $1.5 million for the year ended October 31, 2003 was comprised largely of an excess of insurance proceeds over the net book value of a country grain elevator destroyed by fire. The gain on disposal of assets of $17.2 million in 2002 included $2.8 million from the sale of the Company's Unipork Genetics business and a subsidiary's gain on the disposal of surplus land.



AU – EBITDA
($ millions)
Trailing twelve months ended

Interest

Interest and securitization expenses of $48.4 million for the fiscal year ended October 31, 2003 increased $3.8 million (9%) from $44.6 million in 2002 and consisted of $38.9 million in interest on long-term debt, $11 million on short-term debt and $2.5 million in securitization expenses, offset by $4 million in carrying charges recovered from the CWB in respect of grain purchased on its behalf.

Average short-term indebtedness of $172 million during fiscal 2003 was $171 million lower than 2002, contributing to a $2.6 million reduction in short-term interest costs, offset by an increase of 54 basis points in the average prime rate to 4.69% for 2003 from 4.15% in 2002 and associated higher borrowing costs.

Interest on long-term debt for 2003 increased $6.8 million over 2002 costs of $32.1 million – the increase due to issuing $109 million in long-term debt in December 2002 as part of the Company's debt restructuring, as well as the debt portion of the $105 million in 9% convertible unsecured subordinated debentures issued in November 2002.

Carrying charges recovered from the CWB increased by $237,000 in fiscal 2003 compared to 2002 reflecting the underlying increase in prime interest rates noted above offset by lower average CWB inventory balances.

Offset by the 9% increase in interest and securitization expenses, the 26% increase in EBITDA improved the Company's interest coverage (EBITDA to interest and securitization expenses) to 2.2 times for fiscal 2003 from 1.7 times in 2002.

Earnings Before Unusual Items, Discontinued Items and Income Taxes

The pre-tax loss of $19 million before unusual and discontinued items for the fiscal year ended October 31, 2003 was $8.8 million better than the pre-tax loss before unusual and discontinued items of $27.8 million for the same 12 month period in 2002 – the result of a $28.3 million increase in EBIT, offset by a $15.7 million reduction in gains on disposal of assets and a $3.8 million increase in interest and securitization expenses.

Unusual Items

The unusual, non-recurring items of $4.2 million ($2.7 million after-tax) recorded for the 15 months ended October 31, 2002 represented UGG's portion of Merger costs. Merger costs in 2002 associated with Agricore were accrued as part of the opening balance sheet provisions in accordance with the purchase method of accounting for business combinations.

Discontinued Operations

On October 9, 2003, the Company announced that it had completed the previously announced sale of its Farm Business Communications division's assets and liabilities effective September 30, 2003. The purchaser acquired the division's publications from Agricore United for $14.4 million in cash and assumed approximately $1.6 million of net liabilities, primarily prepaid subscriptions. The purchaser paid $12.2 million of the cash purchase price at closing and will pay the remaining $2.2 million in equal installments over three years. The gain on the sale of the Farm Business Communications division, net of closing costs, was $15 million before tax and $11.9 million after tax (or $0.26 per share).

Agricore United separately contracted to purchase advertising services from the purchaser at a level consistent with advertising placed by the Company with its division in the past.

Farm Business Communication earnings, net of taxes, of $821,000 for the year ended October 31, 2003 declined by $133,000 compared to net earnings of $954,000 reported for the 15 months ended October 31, 2002.

Income Taxes

The Company's effective tax rate on earnings before income taxes, discontinued operations and unusual items was 20.5% for the fiscal year ended October 31, 2003 as detailed in Note 18 to the financial statements. The Company accrued a current recovery of income taxes of only $1.3 million for the fiscal year ended October 31, 2003, supplemented by expected future income tax recoveries of only $2.6 million, notwithstanding the pre-tax loss of $19 million, due to the differential tax rates of certain taxable wholly-owned and partially-owned subsidiaries and the effect of the federal Large Corporation Capital Tax (which levies a flat rate on capital employed at the end of the year).

As at October 31, 2003 the Company has tax loss carry-forwards of over $200 million, expiring between October 2008 and 2010 and therefore available to reduce income taxes otherwise payable in future years.

Net Loss for the Year

The net loss of $2.4 million for the year ended October 31, 2003, or a loss of $0.15 per share, was $15.1 million better than the loss of $17.5 million or $0.42 per share for the same 12 month period ended October 31, 2002. Per share calculations deduct from the net loss the effect of the preferred share dividend of $1.1 million (2002 – $1.1 million) and after-tax interest of $3.4 million (2002 – $nil) on the equity component of convertible debentures. Excluding discontinued operations, the net loss for the year ended October 31, 2003 was $15.1 million or a loss of $0.43 per share.

For the 15 months ended October 31, 2002, the net loss was $23.5 million or $0.64 per share ($0.67 loss per share excluding discontinued operations).

Liquidity and Capital Resources

Share Capital and Retained Earnings

Retained earnings of $38.4 million at October 31, 2003 were $8.3 million lower than at October 31, 2002. Net losses for the fiscal year ended October 31, 2003 of $2.4 million, dividends declared of $2.5 million, and after-tax interest on the equity portion of the convertible debenture of $3.4 million accounted for the decline.

Share capital of $460.5 million at October 31, 2003 increased by $157,000 from $460.4 million at October 31, 2002. The Company issued 28,364 common shares from treasury as required under its Directors' Share Compensation Plan, representing a minimum of 25% of directors' fees otherwise payable (calculated based on the average price for the 10 trading days preceding each quarter-end).

The market capitalization of the Company's 45,309,932 issued and outstanding Limited Voting Common Shares (61,018,124 common shares including convertible securities) was $387.4 million at December 8, 2003 or $8.55 per share compared with the Company's book value of $10.76 per share at October 31, 2003.

Convertible Debenture

The Company issued $105 million of 9% convertible unsecured subordinated debentures (the "Debentures") on November 27, 2002, maturing November 30, 2007. The Debentures are convertible, at the option of the holder prior to the maturity date at a conversion price of $7.50 per share or 133.3333 Limited Voting Common Shares per $1,000 principal amount of Debentures (an aggregate of 14 million Limited Voting Common Shares assuming conversion of all of the Debentures). The Debentures may be redeemed by the Company under certain circumstances after November 30, 2005 for cash or by issuing freely tradable Limited Voting Common Shares.

In accordance with Canadian generally accepted accounting principles, $69.4 million of the Debentures was classified initially as Shareholders' Equity and $35.6 was classified as Long-term Debt. The amortization of the debt component of the Debentures includes $3.5 million charged to interest and securitization expenses as a non-cash expense. The increase in the equity component of the Debentures (net of tax) of $3.4 million is charged directly to retained earnings. The actual cash payment of interest on the Debentures of $4.8 million appears on the Consolidated Statements of Cash Flows under financing activities.

Long-Term Debt

In December 2002 the Company obtained a $150 million non-revolving term facility maturing in October 2007 from a syndicate of banks and a separate 13-year facility of $109 million from a U.S. life insurance company. The proceeds of the $150 million bank term facility were used to refinance the existing bank term facility of $150.8 million outstanding at October 31, 2002. The proceeds of the new 13-year facility were used to repay short-term debt.

As a result of $18.2 million of scheduled principal repayments during the course of the year, total long-term debt of $388 million at October 31, 2003 consisted of $141 million of the bank term facility, $109 million of the 13-year term facility, $128 million in term notes with a syndicate of Canadian life insurance companies and $10 million of long-term subsidiary debt. Of this total, $26.8 million is scheduled for repayment within the next 12 months. The borrowing facilities are secured by charges over all the assets of the Company and its material wholly-owned subsidiaries and by specific charges over material fixed assets.

Short-Term Debt

The Company had approximately $23.7 million in Member and Staff Loans outstanding at October 31, 2003, a decrease of $7.3 million from $31 million outstanding at October 31, 2002 due to maturities and normal course redemptions. Following the Merger, the Company was required to reapply to the securities commissions in order to accept new deposits from members and staff and on February 4, 2003, the Company received the required regulatory approval. These loans are unsecured and repayable on a demand basis with an average carrying cost at or below prime.

In December 2002 the Company obtained a new $350 million revolving facility maturing in February 2004 (the "Revolving Credit Facility") from a syndicate of banks. The Revolving Credit Facility replaced three separate short-term facilities totalling $400 million at October 31, 2002. The new borrowing facility is secured by charges over all the assets of the Company.

The Company had Bank and Other Loans of $175.9 million outstanding at October 31, 2003 compared with $388.7 million outstanding at October 31, 2002. The year-over-year decrease in short-term borrowings of $212.8 million reflects the issue of $214 million in additional long-term debt and unsecured convertible debentures, cash flow from operations ($60.3 million), reduced non-cash working capital ($13.8 million), and proceeds from the sale of the Farm Business Communications division ($12.2 million), offset by an increase in cash on deposit of $14.8 million, net capital expenditures and investments of $32 million, scheduled debt repayments of $18.2 million, interest paid on convertible debentures of $4.8 million, dividends paid of $4.7 million, financing costs of $10.4 million and a decrease in other long-term liabilities of $2.9 million.

The Company had $95 million in outstanding letters of credit at October 31, 2003 (an increase of $58 million over 2002) in support of the security requirements of the Canadian Grain Commission, Winnipeg Commodity Exchange and the Company's grain volume insurance program. Accordingly, the Company's available uncommitted short-term revolving credit facility at October 31, 2003 was $105 million compared with an uncommitted facility of $8 million at the same point last year.

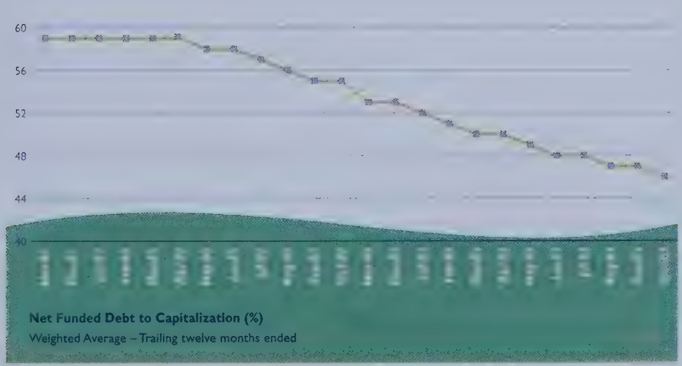
Securitization

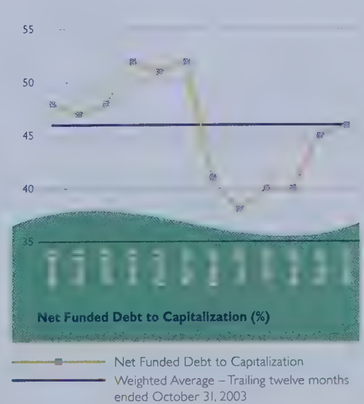
At October 31, 2003, the Company had an agreement with an independent trust to securitize (or sell on a revolving, limited recourse basis) up to $175 million in respect of the Company's right to receive proceeds under its handling agreement with the CWB from the delivery of grain regulated by the CWB. As at October 31, 2003, the aggregate amount securitized was $43 million or $27.3 million lower than the $70.3 million securitized at October 31, 2002 due to lower inventories held for the CWB.

On November 5, 2003, the Company transferred its securitization program to a new trust. Apart from the elimination of the $175 million limit and the substitution of a 60 day notice period to cancel the agreement, the new trust operates under similar terms and conditions.

Leverage

The Company's total funded debt (excluding the convertible debentures), net of cash, declined to $510 million at October 31, 2003 from $658 million at October 31, 2002 and $771 million at the Merger.





The Company's leverage ratio (net funded debt to capitalization) fluctuates materially from month-to-month due to underlying seasonal variations in working capital, reflecting purchases of grain in the fall and crop inputs inventory through the winter and early spring, all of which cannot be financed entirely with trade credit. Measured on a weighted average trailing twelve month basis, the Company's leverage ratio at October 31, 2003 was 46%, an improvement over the 48% leverage ratio at the previous quarter ended July 31, 2003, the 55% leverage ratio at October 31, 2002 and, on a pro forma basis, the 58% leverage ratio for the trailing twelve months ended October 31, 2001 (the twelve months immediately preceding the Merger). The Company's ratio of total net debt to net tangible assets at October 31, 2003 was 49% (2002 – 59%).

Cash Flow Provided by Operations

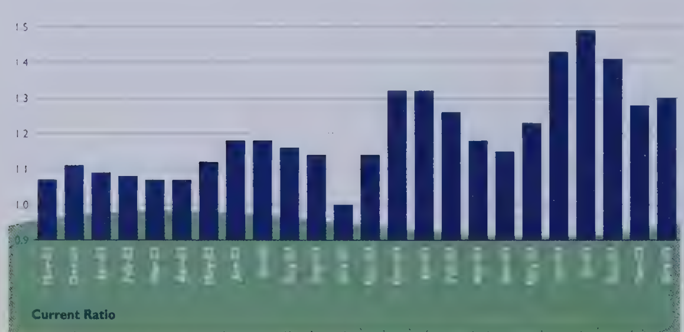
Cash flow provided by operations of $60.3 million (or $1.20 per share) for the fiscal year ended October 31, 2003 increased $38.3 million from $22 million (or $0.53 per share) for the 15 months ended October 31, 2002. EBITDA less unusual items increased $28.7 million for the year ended October 31, 2003 compared to the 15 months ended October 31, 2002 and current tax recoveries increased $9.9 million, partially offset by increased non-cash earnings from equity investments and non-cash post-employment benefit recoveries.

The Company generated $40.5 million of cash flow from operations in excess of capital expenditures and investments (net of proceeds from sale and divestiture) of $19.8 million.

Working Capital

The Company's current ratio at October 31, 2003 increased to 1.30 to 1 from 0.95 to 1 at October 31, 2002, representing a significant improvement in liquidity. Working capital of $176.8 million at October 31, 2003 was $214.3 million higher than the working capital level at October 31, 2002. Bank and other loans, and the current portion of long-term debt, were reduced by $216.6 million, primarily as a result of the debt restructuring in December 2002 and the issue of $105 million in Debentures in November 2002. Dividends payable decreased by $2.3 million, largely due to the Company declaring a $0.03 per share quarterly dividend in the last quarter of 2003 compared with a $0.075 annual dividend declared in the last quarter of fiscal 2002.

Non-cash working capital decreased by $13.8 million from October 31, 2002 to October 31, 2003. Accounts receivable and prepaid expenses increased by $35.6 million as at October 31, 2003, largely due to increased receivables in the Company's joint venture Western Co-operative Fertilizers Limited ("Westco") and rebates due from suppliers on increased sales of crop protection products. The $9.7 million reduction in inventories includes a $21.9 million reduction in chemical inventories (due to the prior year carry-out inventory being unusually high following the 2002 drought), a modest reduction in Non-Board grain inventories ($3.8 million or 1.7%) and reductions in feed inventory of $1.2 million associated with lower feed sales activity, partially offset by an increase in crop nutrient inventories of $15.8 million (due to underlying increases in the value of such products over the past year). Trade payables and accrued liabilities increased by $39.7 million, primarily reflecting increased fertilizer purchases during the fall season.



Capital Expenditures, Acquisitions and Divestitures

Capital expenditures for the year ended October 31, 2003 of $29.2 million were funded entirely by cash flow provided by operations and were $4.6 million lower than the 15 month period ended October 31, 2002. Individually large capital expenditures in the current year include $8.8 million related to the construction of a replacement feedmill in Edmonton, Alberta (expected to be commissioned in February 2004), $5.6 million for the replacement of an air filtration system at one of the Thunder Bay port terminals, $1.6 million for the construction of additional grain storage at strategic locations with the balance representing sustaining capital expenditures.

Effective July 1, 2003, the Company agreed to realign its equity interest with Westco's other joint venturer based on each party's historically contributed and retained capital with Westco. Accordingly, the resulting realignment of the Company's proportionate share of Westco's assets and liabilities included an $8.2 million reduction in the Company's entitlement to undistributed cash of Westco as at July 1, 2003.

Effective September 30, 2003, the Company divested of its Farm Business Communications division for $16 million. The purchaser made an initial cash payment of $12.2 million on closing, assumed $1.6 million of current liabilities in excess of current assets in partial settlement of the purchase price and provided the Company with a promissory note for a further $2.2 million payable in equal annual installments over three years.

Pension Plan Surplus

On July 1, 2003, employees who were actively participating in one of the Company's remaining defined benefit pension plans became members of the Company's defined contribution pension plan. Unionized terminal employees continue to participate in their respective defined benefit plans. At October 31,

2003, the market value of the aggregate plan assets of the Company's various defined benefit pension plans exceeded the aggregate accrued benefit obligation. The Company reported a deferred pension asset of $17.3 million in Other Assets at October 31, 2003. The Company made $2.5 million in cash contributions to the defined benefit plan and $2 million in cash contributions to the defined contribution and multi-employer plans for the year ended October 31, 2003 (compared to a pension of expense of $4.7 million reflected in the financial statements).

Risks

The Company manages risk and risk exposures through a combination of insurance, derivative financial instruments, its system of internal and disclosure controls and sound operating practices.

The effect of weather conditions on farm output represents a significant operating risk to the volume of grain handled and related revenues earned at country elevators and port terminals. Weather, the market prices of grain, total volume of grain production and mix of Board and non-Board grain produced, in turn affect the volumes and mix of crop production input sales. The Company's elevators and crop input distribution facilities are geographically dispersed throughout the prairie provinces, diversifying the exposure to some of these risks.

International grain supply and demand and the strength of the CWB's export program can also affect the volume of Canadian grain exports and, therefore, the volume of grain handled. In order to provide a substantial amount of protection against revenue losses due to unusually low grain handling volumes, UGG implemented an insurance program effective December 31, 1999 through 2002, part of which was tied to industry-wide downturns in grain handling volumes. Following the below average grain shipments for the 2001/2002 crop year, the Company filed a claim for, and received payment of $7.5 million in 2001/2002 and a further $4.6 million in 2002/2003. Agricore United subsequently contracted for grain volume insurance covering the crop years from 2003/2004 to 2005/2006.

The Company employs a number of other insuring and retention arrangements to actively manage its property, business interruption, boiler, marine, liability, fidelity, environmental, surety, employee accident and automobile risks and balance the overall, long-term cost with long-term economic benefit.

Exposure to inventory losses is managed through a variety of quality control processes, inventory management and shipping practices, ongoing staff training, and facilities management and maintenance. The Company complies with environmental regulations and uses special storage facilities and transportation methods to manage exposures from certain environmental hazards associated with the storage and handling of fertilizers and crop protection products.

Consumer awareness and concern over food safety and "traceability" is a developing trend. Agricore United has established a number of processes to track and identify crops at every stage of production from seed to customer to meet international standards, including HACCP – the internationally recognized system of quality control for food safety – and ISO 9001 certification for the processing and export of grains, oilseeds and special crops. ISO 9000 registration and HACCP compliance are verified by third-party audits. As at October 31, 2003, four of the Company's port terminals are registered to ISO 9001:2000 and HACCP compliant, with the remaining directly controlled port terminal awaiting registration. The Company's country network includes 46 high throughput ("HTP") elevators and ten Special Crop facilities which are registered ISO 9001:2000 and HACCP compliant, with the remaining three HTPs, conventional elevators and joint ventures progressing towards registration. Agricore United's seven feedmills and Edmonton pre-mix facility are HACCP certified by the Canadian Food Inspection Agency of the Government of Canada.

Agricore United uses derivative financial instruments to manage market risks resulting from fluctuations in underlying interest rates, foreign exchange rates and commodity prices. Fundamentally, Agricore United attempts to mitigate risk wherever possible. Where available, derivative instruments are effective in minimizing these risks by creating essentially equal and offsetting market exposures. The derivative financial instruments held by Agricore United are principally held for purposes other than derivatives trading. If Agricore United did not use financial instruments, its exposure to market risk would be greater.

Risk Management

The Company's Corporate Risk Management Committee (consisting of the Chief Executive Officer, Chief Financial Officer and a number of senior managers of the Company) is responsible for identifying the risks faced by the Company, determining the materiality of those risks and recommending appropriate policies to the Board of Directors to reasonably contain the risks which can be managed. The Committee also provides direction to management on risk management strategies, the use of risk management products, specific exposure limits and approved counterparties. In addition, it determines that responsibility for specific risks is clearly delegated and that there are appropriate internal controls and monitoring systems to ensure that defined policies and procedures are adhered to.

Market Risk

A significant source of the Company's revenue is earned by Grain Handling and Merchandising. Earnings in this segment of the business fluctuate in relation to the volume of grain handled and the margin earned on merchandising open market (non-Board) grains. In the case of Board grains, the Company earns storage and handling tariffs from the CWB which are established independently of the market price for the grain. Board grains represented 57% of total grain handled by Agricore United in 2003 (64% for the 12 months ended October 31, 2002).

Since a significant portion of the Company's off-shore transactions are denominated and priced in U.S. dollars, the Company is not directly exposed to volatility in export sales as a result of underlying changes in the relationship between the Canadian dollar and other foreign currencies. The Company may be indirectly affected to the extent that farmer customers are adversely impacted by

changes in the underlying exchange value of the Canadian dollar that, over a sustained period, are not compensated for by a corresponding change in input costs (i.e. changes in costs of fuel, crop inputs, etc.).

The Company utilizes exchange traded futures contracts wherever possible to manage the exposure associated with fluctuations in the cash price of non-Board grains. In so doing, the Company assumes a basis risk to the extent that the two do not change by directly equivalent amounts. Where exchange traded futures for a particular commodity are not available or where the liquidity of a particular exchange traded future is volatile, Agricore United develops cross hedges using futures contracts for similar or related products. While the utilization of such hedges reduces exposure to price risk, exposure to basis risk increases, although not proportionately. The Company retains any remaining commodity risks. The Company also employs forward sales contracts to hedge prices for the sale of grain, forages and special crops, forward purchase contracts to fix costs of supply of livestock feed inputs and prepaid purchases of crop production inputs with future delivery dates.

Foreign Exchange Risk

As a significant portion of the Company's net revenues are effectively denominated in U.S. dollars, the Company uses forward exchange contracts and options to hedge this exposure.

Interest Rate Risk

To mitigate interest rate risk, the floating interest rate on the $141 million of the Company's bank term loan has been fixed through an interest rate swap with a Canadian chartered bank at a rate of 6.65% for the term of the loan. The Company also manages the interest rate term risk on its short-term borrowings by using a combination of cash instruments, futures, options and forward rate agreements.

Credit Risk

Agricore United is exposed to credit risk in the event of non-performance by its counterparties. However, the Company enters into over-the-counter derivative contracts only with pre-authorized counterparties where agreements are in place. Agricore United monitors the credit ratings of its counterparties on an ongoing basis. No provision has been made in respect of credit losses on derivative contracts, as Agricore United does not anticipate any non-performance. The Company also requires additional collateral in the form of letters of credit or cash deposits where large grain sale contracts with a particular customer potentially involve concentration of risk.

Exchange traded futures contracts used to hedge future revenues in the Company's grain business are not subject to any significant credit risk as the changes in contract positions are settled daily.

Agricore United manages its exposure to potential credit risk in respect of trade receivable contracts through a rigorous analysis of outstanding positions, payment and loss history and ongoing credit reviews of all significant contracts. The absence of significant financial concentration of such receivables limits its exposure to credit risk. With the formation of Agricore United Financial, the Company has limited its exposure to credit risk by limiting the financial institution's recourse against the Company for indemnification of losses incurred on certain accounts receivable.

Operating Environment

Risks and uncertainties associated with world grain markets affect a country's and a company's ability to compete. Specifically, the following are the more significant factors that may affect international grain trade:

- the lack of progress in reducing subsidies and market distortions through the WTO (World Trade Organization)
- grain producing nations emerging as competitors in the export market
- increasing consumer awareness and concern over the safety and nutritional aspects of food products
- the ongoing uncertainty over the acceptance of genetically modified organisms ("GMOs") in food products, and
- changes in the regulatory environment including the Kyoto Accord, Biosafety Protocol and U.S. bioterrorism legislation

The Canadian grain industry and rail transportation, upon which the industry depends, are still highly regulated. In the past few years, the federal government has made modest progress in deregulating the grain transportation system, and mainly in ways which Agricore United anticipated and has positioned itself to take advantage of. However, the recent introduction of the CWB's new railcar award policy, which reduced the shipments of Board grains by tender from 50% to 20%, represents a return to a less commercial grain forwarding system. Such policy decisions may adversely affect the Company's ability to fully achieve its potential in terms of market share and profitability.

Competition

Grain Handling

Agricore United – with an approximate market share of 36% – has numerous competitors in the Canadian grain handling industry, including Saskatchewan Wheat Pool, James Richardson International, Cargill Limited, N.M. Paterson & Sons, Parrish & Heimbecker, Louis Dreyfus Canada and many other smaller companies, all of which handle less grain individually than Agricore United. The recent changes to the grain tendering process by the Canadian Wheat Board and revisions to the rail car allocation policy have negatively impacted the competitive environment.

Over the past 40 years, while the volume of grain handled has increased, the number of elevator facilities operating across the prairies has dropped significantly – part of an ongoing process of rationalization within the industry. Agricore United's total licenced storage capacity of 1.2 million tonnes represents about 24% of the 5.1 million tonnes of total industry licenced capacity as at August 1, 2003. Agricore United's elevators are geographically dispersed across the Prairies, broadening its access to the market, the variety of grains it can source and minimizing its risk from regionally adverse growing conditions.

Crop Inputs

Agricore United's Crop Production Services segment competes against other grain companies, international seed companies and numerous independent retailers in supplying seed, fertilizers, crop protection products and agronomic services to farmers. Agricore United is one of the largest distributors of seeds in western Canada, with numerous

proprietary and publicly available seed varieties. The Company continues to increase its focus on the distribution of seed for resale to its producer customers while maintaining its access to new seed technology.

Livestock Services

The Livestock Services division competes with public and private grain and feed companies and independent retailers. Prior to 2003, Agricore United improved its volumes, plant operating efficiencies and margins through an ongoing program of rationalization, acquisition and construction of modern replacement facilities.

Legislation passed in 2002 in the United States introduced the concept of "Country of Origin" labelling for meat and other fresh commodities. Stringent product labelling guidelines may negatively impact export shipments from Canada to the United States or contribute to pricing differentials which disadvantage Canadian producers. Implementation of these guidelines, originally scheduled for September 30, 2004, have recently been postponed to 2006.

Outlook

Average precipitation across the Prairies has been well distributed over the period from September 1, 2003 to December 3, 2003. Precipitation levels, measured against the historical distribution, have averaged between the 40th and 80th percentiles for most of the arable land in the region, with largely eastern Saskatchewan and the Peace region experiencing precipitation levels below the 40th percentile. Nevertheless, these initial precipitation levels, while not definitive, support preliminary expectations for a normal growing season in 2004. However, normal crop production levels and the sale of crop production inputs in 2004 remain dependent on adequate moisture levels over the balance of the winter and, in particular, the spring. The 2004 growing season will impact the Company's Crop Production Services segment in fiscal 2004. However, 2004 production levels will predominantly impact the Company's grain shipments in fiscal 2005.

The livestock industry's prospects, while improving, continue to languish as a result of the protracted relaxation of export bans declared by many countries on May 20, 2003 following the discovery of a single case of bovine spongiform encephalopathy ("BSE") in Alberta. The broader effect on overall farm incomes and any subsequent impact on producer purchasing power still remains uncertain, however, financial support programs offered by the federal and provincial governments, particularly in Alberta, have provided some relief in the form of direct cash payments to livestock producers.

As anticipated at the end of the Company's 3rd quarter, feed sales softened further during the 4th quarter ended October 31, 2003. However, the onset of colder months and increased production throughput at processing plants is still expected to lead to an expansion of beef cattle on feed. The two-year delay in country of origin labeling in the United States may also improve livestock producers' access to that market in the coming months. The manufacture of feed for beef cattle represents less than 20% of the Company's total feed business and therefore the recent downturn in this segment of the feed business has not had, nor is expected to have, a significant impact on the Company's financial results. The Company provides some marketing services to swine producers, brokers hogs to various stages of the finishing process and has an investment in The Puratone Corporation, the 2nd largest hog producer in Manitoba.

Average grain production in western Canada for the 10 years ended July 31, 2001 (including the effects of the 2001 drought but excluding the effects of the unprecedented 2002 drought) was 48 million tonnes with an average of about 32 million tonnes exported per year (or 67% of average production). On December 5, 2003, Statistics Canada released 2003 production estimates for western Canada of about 45.7 million tonnes (or 95% of average production) compared with its original production estimates of 42 million tonnes released on August 22, 2003. Manitoba and Alberta production estimates represent about 115% and 96% of their respective 10 year average production. Statistics Canada 2003 production estimates for Saskatchewan represent about 88% of that province's 10 year average production. The Company's network of grain elevators, while geographically dispersed across the Prairies, is more concentrated in Alberta and Manitoba. Consistent with the experience of the most recent quarter ended October 31, 2003, significantly increased grain production from 2003 should result in a similar increase in tonnes available for shipping by the industry and the Company for the crop year ending July 31, 2004 – a significant portion of the Company's 2004 fiscal period. In the world markets, wheat supplies remain tight and demand for oilseeds, particularily in China, continues to be strong – both factors supportive of stronger grain movement in fiscal 2004.

Certain statements in this report may constitute forward-looking statements. The results or events predicted in these statements may differ materially from actual results or events. These forward-looking statements can generally be identified by the use of statements that include phrases such as "believe", "expect", "anticipate", "intend", "plan", "likely", "will" or similar words or phrases. Similarly, statements that describe the Company's objectives, plans or goals are or may be forward-looking statements.

These forward-looking statements are based on the Company's current expectations and its projections about future events. However, whether actual results and developments will conform with the Company's expectations and projections is subject to a number of risks and uncertainties, including, among other things, the risks and uncertainties described under "Risks" and the risk factors described in the Company's Annual Information Form for the fiscal year ended October 31, 2003 under the heading "Risk Factors". These are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of the Company's forward-looking statements. Other known and unpredictable factors could also harm its results. Consequently, there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Management's Responsibility for Financial Reporting

The management of United Grain Growers Limited, carrying on business as Agricore United, is responsible for the preparation and presentation of the accompanying financial statements and all of the information contained in this annual report. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles which recognize the necessity of relying on management's judgement and best estimates. Financial information contained throughout this annual report is consistent with these financial statements.

To fulfill its responsibility and ensure integrity of financial reporting, management maintains a system of internal accounting controls and an internal audit department to review systems and controls on a regular basis. These controls, which include a comprehensive planning system and timely reporting of periodic financial information, are designed to provide reasonable assurance that the financial records are reliable and form a proper basis for the accurate preparation of financial statements.

Final responsibility for the financial statements and their presentation to shareholders rests with the Board of Directors. The Audit Committee of the Board of Directors, consisting of non-management directors, oversees management's preparation of financial statements and financial control of operations. The Audit Committee meets separately with management, the Company's internal auditors and the Company's independent auditors, PricewaterhouseCoopers LLP, to review the financial statements and recommend approval by the Board of Directors.

Brian Hayward,
Chief Executive Officer

Peter G. M. Cox,
Chief Financial Officer

Auditors' Report
To the Shareholders of United Grain Growers Limited, carrying on business as Agricore United:

We have examined the consolidated balance sheets of United Grain Growers Limited as at October 31, 2003 and 2002 and the consolidated statements of earnings and retained earnings and consolidated statements of cash flows for the year ended October 31, 2003 and the 15 months ended October 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2003 and 2002 and the results of its operations and the changes in its cash flows for the year ended October 31, 2003 and the 15 months ended October 31, 2002 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants
Winnipeg, Canada
December 10, 2003

consolidated

Balance Sheets

(in thousands)	As at October 31, 2003	As at October 31, 2002
Assets		
Current Assets		
Cash and cash equivalents	$ 53,919	$ 39,117
Accounts receivable (note 4)	226,760	200,109
Inventories (note 5)	457,761	469,172
Prepaid expenses	20,302	12,345
Future income taxes (note 18)	2,903	10,911
	761,645	731,654
Property, Plant and Equipment (note 6)	688,896	728,982
Other Assets (note 7)	62,440	56,898
Goodwill (note 20)	26,389	25,024
Intangible Assets (note 20)	16,502	16,808
Future Income Taxes (note 18)	36,111	29,165
	$ 1,591,983	$ 1,588,531
Liabilities and Shareholders' Equity		
Current Liabilities		
Bank and other loans (note 9)	$ 175,947	$ 388,722
Accounts payable and accrued expenses	379,405	344,836
Dividends payable	2,464	4,728
Current portion of long-term debt (note 10)	26,774	30,614
Future income taxes (note 18)	259	303
	584,849	769,203
Long-term Debt (note 10)	361,225	267,367
Debt Component of Convertible Debentures (note 11)	30,417	—
Other Long-term Liabilities (note 12)	36,547	40,361
Future Income Taxes (note 18)	4,515	4,254
Shareholders' Equity		
Share capital (note 13)	460,509	460,352
Equity component of convertible debentures (note 11)	74,869	—
Contributed surplus (note 14)	642	336
Retained earnings	38,410	46,658
	574,430	507,346
	$ 1,591,983	$ 1,588,531

Approved by the Board

James Wilson,
Director

Terry Youzwa,
Director

consolidated

Statements of Earnings and Retained Earnings

(in thousands)	12 months ended October 31, 2003	15 months ended October 31, 2002
Sales and revenue from services (note 15) *(excluding CWB billings of: 2003 – $790 million, 2002 – $1,118 million)*	$ 2,726,631	$ 2,962,618
Gross profit and net revenue from services (note 20)	408,814	447,420
Operating, general and administrative expenses	(308,283)	(371,342)
Earnings before the undernoted (note 20)	100,531	76,078
Depreciation and amortization	(72,600)	(82,753)
	27,931	(6,675)
Gain on disposal of assets	1,548	17,221
Interest and securitization expenses (note 17)	(48,462)	(48,408)
	(18,983)	(37,862)
Unusual items (note 25)	—	(4,236)
Discontinued operations – net of income taxes (note 24)	12,708	954
Recovery of income taxes (note 18)		
On unusual items	—	1,525
On loss from continuing operations before unusual items	3,891	16,086
Net loss for the period	(2,384)	(23,533)
Retained earnings, beginning of year	46,658	74,919
Increase in equity component of convertible debentures (note 11)	(3,400)	—
Dividends	(2,464)	(4,728)
Retained earnings, end of year	$ 38,410	$ 46,658
Basic and diluted loss from continuing operations per share (note 1)	$ (0.43)	$ (0.67)
Basic and diluted loss per share (note 1)	$ (0.15)	$ (0.64)

consolidated

Statements of Cash Flows

(in thousands)	12 months ended October 31, 2003	15 months ended October 31, 2002
Cash Flows From Operating Activities		
Net loss for the period	$ (2,384)	$ (23,533)
Adjustments for:		
Depreciation and amortization	72,600	82,753
Employee future benefits	2,109	1,343
Future income taxes (recovery)	728	(22,910)
Equity (earnings) loss from investments, net of distributions	(127)	1,021
Stock-based compensation	306	336
Interest on debt component of convertible debentures	3,530	—
Discontinued operations, non-cash items	(14,872)	205
Gain on disposal of assets	(1,548)	(17,221)
Cash flow provided by operations	60,342	21,994
Changes in non-cash working capital	13,806	19,648
	74,148	41,642
Cash Flows From Investing Activities		
Business acquisitions, net of cash acquired (note 3)	—	34,275
Realignment of ownership interest (note 2)	(8,229)	—
Proceeds from disposal of business segment (note 24)	12,200	—
Property, plant and equipment expenditures	(29,176)	(33,813)
Proceeds from disposal of property, plant and equipment	9,774	42,352
Increase in other assets	(4,393)	(2,395)
	(19,824)	40,419
Cash Flows From Financing Activities		
Increase (decrease) in bank and other loans	(212,775)	12,733
Proceeds from long-term debt	109,000	7,177
Long-term debt repayments	(18,160)	(88,620)
Proceeds from convertible debentures	105,000	—
Interest paid on convertible debentures	(4,790)	—
Deferred financing expenditures	(10,367)	(18,996)
Decrease in other long-term liabilities	(2,859)	(7,429)
Share capital issued	157	64,346
Share issue costs	—	(7,626)
Dividends	(4,728)	(5,308)
	(39,522)	(43,723)
Net increase in cash and cash equivalents	14,802	38,338
Cash and cash equivalents, at beginning of year	39,117	779
Cash and cash equivalents, at end of year	$ 53,919	$ 39,117
Supplementary Disclosure of Cash Flow Information		
Cash payments of interest	$ (42,409)	$ (46,266)
Cash payments of taxes	$ (1,916)	$ (7,074)
Supplementary Disclosure of Non-Cash Items		
Share capital issued	$ —	$ 241,195
Business acquisitions	$ —	$ 206,920

notes to the consolidated

Financial Statements

1. Earnings Per Share

12 months ended October 31, 2003			
(in thousands, except per share amounts)	Amount	Shares	Per share
Net loss for the period	$ (2,384)		
Less:			
Preferred share dividend	(1,105)		
Increase in equity portion of convertible debentures	(3,400)		
Basic & diluted loss per share	$ (6,889)		$ (0.15)
Less:			
Earnings from discontinued operations – net of tax	(12,708)		(0.28)
Basic & diluted loss from continuing operations per share	$ (19,597)	45,299	$ (0.43)

15 months ended October 31, 2002			
(in thousands, except per share amounts)	Amount	Shares	Per share
Net loss for the period	$ (23,533)		
Less:			
Preferred share dividend	(1,381)		
Basic & diluted loss per share	$ (24,914)		$ (0.64)
Less:			
Earnings from discontinued operations – net of tax	(954)		(0.03)
Basic & diluted loss from continuing operations per share	$ (25,868)	38,744	$ (0.67)

Basic earnings per share is derived by deducting annual dividends on preferred shares and the increase in the equity portion of convertible debentures from earnings for the period and dividing this total by the weighted average of Limited Voting Common Shares outstanding for the period.

The effect of potentially dilutive securities (convertible unsecured subordinated debentures and preferred shares) were not included in the year-to-date calculation of diluted earnings per share as the result would be anti-dilutive. Executive stock options have been excluded from the calculation of diluted earnings per share as the exercise price exceeds the average trading value of the shares in the respective periods.

2. Significant Accounting Policies

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada which require Agricore United ("the Company") to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses and disclosures of contingencies. Actual results could differ from these estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its subsidiaries and its proportionate share of the accounts of significant joint ventures. The Company's interest in its joint ventures is recognized using the proportionate consolidation method at rates that approximate either the Company's ownership interest in, or the volume of business with, the respective joint venture:

Subsidiaries	Ownership %
Agricore Ltd.*	100%
Demeter (1993) Inc.	100%
Pacific Elevators Limited	100%
Western Pool Terminals Ltd.	100%
Unifeed Limited and its wholly owned subsidiary	100%
XCAN Grain Ltd. and its wholly owned subsidiaries	100%

Joint Ventures	Ownership %
Alberta Industrial Mustard Company Limited	50%
Cascadia Terminal	50%
CMI Terminal Joint Venture	50%
Gardiner Dam Terminal Joint Venture	50%
Lloydminster Joint Venture	50%
Prairie Mountain Agri Limited	50%
Western Co-operative Fertilizers Limited**	57%

* *Agricore Ltd. was dissolved effective November 1, 2003*

** *For the fifteen months ended October 31, 2002, Western Co-operative Fertilizers Limited ("Westco"), was recognized using the proportionate consolidation method at a rate of 66.67%, representing the Company's ownership interest in Westco's Co-op shares and Class A and C common shares. Effective July 1, 2003, the Company agreed to realign its co-operative equity interest with Westco's other venturer based on each party's historically contributed and retained capital with Westco, which in the Company's case was 57%. Accordingly, the adjustment to the Company's proportionate share of Westco's assets and liabilities included an $8.2 million reduction in the Company's entitlement to undistributed cash of Westco as at July 1, 2003. Since the factors governing joint control by the venturers remain unchanged, the Company continues to account for its interest in Westco as a joint venture using the proportionate consolidation method.*

Revenue Recognition

Revenues from the sale of commodities are recognized upon shipment to the customer from the elevator or port terminal. Revenues from grain-related services, including tariff-based revenues, are recognized upon completion of performance of the service. Revenues from the sale of crop input products are recognized upon shipment to the customer. Revenues from agri-services are recognized upon completion of performance of the service. Revenues from the sale of livestock feed are recognized upon shipment to the customer. Other Livestock Services revenues are recorded upon completion of performance of the service. Financial Markets revenues are recorded upon completion of performance of the service.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments with less than three months to maturity, as well as funds on deposit within jointly held enterprises which may not be immediately available to the Company.

Derivative Financial Instruments

Derivative financial instruments are used by the Company to reduce its exposure to fluctuations in interest rates, foreign currency exchange rates and commodity prices. In the normal course, the Company does not hold or issue derivative financial instruments for derivative trading purposes.

INTEREST RATE SWAP CONTRACTS – The differentials to be received or paid under interest rate contracts are recognized in income over the life of the contracts as adjustments to interest expense. Gains and losses on termination of contracts are deferred and amortized to income over the remaining life of the contract or the related debt, whichever is earlier.

FOREIGN EXCHANGE CONTRACTS – Gains and losses on contracts designated as hedges of existing assets and liabilities are used to offset gains and losses resulting from the underlying hedged transactions. The foreign exchange contracts and the underlying hedged assets are marked to market monthly and the resulting gains and losses are netted and recognized as a current period transaction.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rate while non-monetary assets, liabilities, revenues and expenses are translated at the rate of exchange prevailing at the transaction date. All exchange gains and losses are reflected in earnings during the period in which they occurred.

Accounts Receivable

Amounts receivable in respect of advances to producers arising from the purchase of grain for the account of the Canadian Wheat Board ("CWB"), in accordance with the terms of a handling agreement between the parties, are valued on the basis of CWB initial prices less handling costs.

Inventories

Grain inventories include both hedged and non-hedged commodities. Hedgeable grain inventories are valued on the basis of closing market quotations less handling costs and also reflect gains and losses on open grain purchase and sale contracts to the extent these positions have been hedged. Non-hedgeable grains are valued at the lower of cost or market. Farm supply, seed, feed and livestock inventories are valued at the lower of cost or net realizable value.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, which includes interest incurred on major construction projects, reduced by investment tax credits claimed. The Company uses a combination of straight line and diminishing balance methods of providing depreciation over the estimated useful lives of the assets as follows:

- Country elevator, feed mill and warehouse properties and equipment – *4% to 10% diminishing balance*
- High-throughput elevator properties and equipment – *2% to 6.7% straight line*
- Terminal elevator properties and equipment – *2% to 10% straight line*
- Specified computer equipment – *three years straight line*
- Other equipment, furniture and fixtures – *20% diminishing balance*

Other Assets

DEFERRED CHARGES – Software development costs related to developing or upgrading identifiable software products are deferred and amortized on a straight line basis over a three-year period.

Varietal development costs incurred under agreements for the development of proprietary seed varieties are deferred and amortized on a straight line basis over a four-year period.

Deferred pension costs represent pension funding in excess of pension costs and are amortized over the average remaining service period of active employees expected to receive benefits under the benefit plans.

Financing costs related to the acquisition of long-term credit facilities are deferred and amortized over the term of the facility.

TRADE INVESTMENTS – Trade investments primarily include the Company's non-controlling interests in The Puratone Corporation, Canadian Pool Agencies Limited, Pool Insurance Company and Benson–Quinn–GMS Inc. which are accounted for using the equity method. The Company's non-controlling interest in Prince Rupert Grain Terminal is recorded at nominal value. All other trade investments are recorded at cost.

Intangible Assets

Intangible assets consist primarily of supply contracts with indefinite useful lives. Indefinite life intangibles are not amortized but are tested for impairment on a regular basis. Should the carrying amount of the intangible asset exceed its fair value, an impairment loss would be recognized at that time.

Goodwill

Goodwill represents the excess of the purchase price over the fair values assigned to identifiable net assets acquired. The Company assesses whether there has been a permanent impairment in the carrying value of goodwill based on the fair value of the related business operations. Should the carrying amount of the goodwill exceed its fair value, an impairment loss would be recognized at that time.

Employee Future Benefits

The Company maintains both defined benefit and defined contribution pension plans for employees. Other post-employment benefits, largely in respect of extended health plans and life insurance, are also provided to eligible employees upon retirement. The cost of all future benefits is accrued in the period in which the employee services are rendered, based on actuarial valuations.

Pension fund assets are valued at market values. Any excess net actuarial gains or losses over 10% of the greater of the accrued benefit obligation and the market value of plan assets, together with the transitional asset that resulted on the adoption of the accounting standard in fiscal 2001, are being amortized over the average remaining service period of active employees expected to receive benefits under the benefit plan.

Stock-Based Compensation

The Company offers a stock-based compensation plan for certain employees. The fair value of the award at the time of granting is recognized as compensation expense over the vesting period with an offsetting amount being credited to contributed surplus.

Income Taxes

Income taxes are provided for using the asset and liability method of accounting. Under this method, future income taxes are recognized for temporary differences between the accounting and tax basis of the Company's assets and liabilities, and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs. A valuation allowance would be provided to the extent that it is more likely than not that future income tax assets will not be realized.

3. Business Acquisitions

On November 1, 2001, United Grain Growers Limited issued 20,492,305 Limited Voting Common Shares to the shareholders of Agricore Ltd. in exchange for 100% of their economic interest in the company to form Agricore United. This acquisition has been accounted for using the purchase method and the results of the operations of Agricore Ltd. are included in the consolidated financial statements from November 1, 2001 forward.

On October 21, 2002, the Company entered into a binding agreement to acquire the remaining 30% ownership of Western Pool Terminals Ltd. and Pacific Elevators Limited. During fiscal 2003, the Company accounted for the acquisition of the beneficial ownership of this 30% interest using the purchase method.

The following table summarizes the fair value of assets acquired and liabilities assumed:

(in thousands)	12 months ended October 31, 2003	15 months ended October 31, 2002
Net assets acquired:		
Cash assumed	**$ —**	$ 34,275
Receivables, inventories and property, plant and equipment	**6,964**	1,158,737
Intangible assets	—	16,581
Goodwill*	—	7,738
Liabilities assumed	**(6,964)**	(976,136)
Total purchase price	**$ —**	$ 241,195
Less cash assumed	—	(34,275)
Assets acquired, net of cash assumed	—	206,920

** Virtually none of the goodwill is considered deductible for income tax purposes.*

4. Accounts Receivable

Concentrations of credit risk on trade accounts receivable and revolving notes due from customers are indicated in the following table by the percentage of the total balance receivable from customers in the specified categories.

	As at October 31, 2003	As at October 31, 2002
Grain Handling	**37%**	46%
Crop Production Services	**29%**	18%
Livestock Services	**21%**	27%
Other	**13%**	9%

Securitization Agreement

Under a securitization agreement with an independent trust, the Company can sell up to $175 million of an undivided co-ownership interest in its right to receive reimbursements of amounts advanced to producers arising from the delivery of grains that are held in accordance with a grain handling contract between the Company and the Canadian Wheat Board ("CWB"). The Company receives proceeds equal to the fair value of the assets sold and retains rights to future cash flows arising from future performance of grain handling on behalf of the CWB after the investors in the trust have received the return for which they contracted. The trust has limited recourse to the Company's future grain handling receipts, and no recourse to the Company's other assets. The Company is responsible for fulfilling its obligations under the grain handling agreement entered into with the CWB and retains servicing responsibilities in respect of the CWB grain.

Under the terms of the grain handling contract, the Company is guaranteed a reimbursement of amounts advanced to the producers on behalf of the CWB upon deliveries of CWB grain. The Government of Canada secures this guarantee and therefore no credit losses are expected with respect to these assets. In addition, since the weighted average life of the receivable is only a matter of days, the discount factor is not expected to be a significant element in the computation of fair value. Consequently, the Company has determined that the fair value measurement of this asset to be the same as its carrying value and has concluded that any sensitivity analysis regarding key assumptions used in such valuation would not result in any significant change in valuation.

On November 5, 2003, the Company transferred its securitization program to a new trust. Apart from the elimination of the $175 million limit and the substitution of a 60 day notice period to cancel the agreement, the new trust operates under similar terms and conditions.

At October 31, 2003, the right to receive proceeds from the CWB is reported net of securitized amounts of $43 million (2002 – $70 million). The table below summarizes certain cash flows related to the transfer of receivables during the period:

(in thousands)	As at October 31, 2003
Proceeds from new securitizations	**$ 47,000**
Proceeds from collections not reinvested	**$ (4,020)**

The net cost of these transactions is included in interest and securitization expense in the consolidated statements of earnings and retained earnings.

Agricore United Financial

The Company has a rolling five-year agreement with a financial institution to provide credit for qualifying agricultural producers. The agreement may be terminated at an earlier date by mutual consent or by either party upon one year's written notice.

5. Inventories

Inventory is comprised of the following:

(in thousands)	As at October 31, 2003	As at October 31, 2002
Grain	$ 216,824	$ 220,618
Crop inputs	224,885	231,025
Feed and livestock	11,903	12,648
Other	4,149	4,881
	$ 457,761	$ 469,172

6. Property, Plant and Equipment

(in thousands)	As at October 31, 2003		As at October 31, 2002	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Country elevator, feed mill and warehouse properties and equipment	$ 807,351	$ 335,308	$ 850,132	$ 352,568
Terminal elevator properties and equipment	285,810	166,798	291,444	180,333
Other equipment	364,031	266,190	304,967	184,660
	$ 1,457,192	$ 768,296	$ 1,446,543	$ 717,561
Net book value	$ 688,896		$ 728,982	

7. Other Assets

(in thousands)	As at October 31, 2003	As at October 31, 2002
Deferred Charges:		
Systems development costs	$ 4,680	$ 6,051
Varietal development costs	3,990	3,240
Pension costs (note 8)	17,327	17,499
Financing and other costs	9,922	10,639
Trade Investments	26,521	19,469
	$ 62,440	$ 56,898

8. Employee Future Benefits

The Company maintains a benefit plan, including life, extended health and dental coverage, for its retirees. In December 2002, the Company altered the plan composition for employees retiring after January 1, 2004. As a result of this change, a curtailment gain of $1.3 million was recorded against benefit expense during the first quarter.

The Company maintains several defined benefit and defined contribution pension plans for substantially all of its employees and is also a member of a multi-employer defined benefit plan. The multi-employer plan is accounted for as a defined contribution plan.

The Company intends to file an application with the Superintendent of Financial Institutions to harmonize the employee pension arrangements of three of its pension plans effective July 1, 2003 and merge the plan funds effective September 1, 2003. The harmonization of the plans and merger of the funds is subject to regulatory approval. The pension benefits accrued to the members prior to the effective date are fully protected, will be fully preserved and are not affected by the harmonization. Management believes that there will be no adverse impact on the financial position of the Company as a result of the harmonization of the plans and merger of the funds.

The Company's net benefit plan income (expense) is as follows:

	Pension Benefits		Other Future Benefits	
(in thousands)	12 months ended October 31, 2003	15 months ended October 31, 2002	12 months ended October 31, 2003	15 months ended October 31, 2002
Current service cost	$ (1,214)	$ (2,476)	$ (246)	$ (322)
Interest cost	(6,605)	(7,110)	(740)	(712)
Expected return on plan assets	7,536	8,710	—	—
Amortization of transitional asset	779	865	—	—
Amortization of gains (losses)	(588)	—	1,305	31
Net benefit plan income (expense) (defined benefit component)	$ (92)	$ (11)	$ 319	$ (1,003)
Defined contribution component expense	(4,315)	(4,738)	—	—
Multi-employer plan contribution expense	(303)	(658)	—	—
Net benefit plan income (expense)	$ (4,710)	$ (5,407)	$ 319	$ (1,003)

Information about the Company's defined benefit pension arrangements, in aggregate, and other future benefits are as follows:

	Pension Benefits		Other Future Benefits	
(in thousands)	As at October 31, 2003	As at October 31, 2002	As at October 31, 2003	As at October 31, 2002
Accrued Benefit Obligation				
Balance, beginning of year	$ 112,603	$ 20,238	$ 9,083	$ 8,631
Agricore Ltd. acquisition*	—	95,507	3,409	—
Current service cost	1,323	2,582	246	322
Interest cost	6,605	7,110	740	712
Benefits paid	(10,353)	(13,787)	(807)	(551)
Actuarial (gain) loss	4,859	953	(1,305)	(31)
Balance, end of year	$ 115,037	$ 112,603	$ 11,366	$ 9,083
Plan Assets				
Fair value, beginning of year	$ 123,057	$ 53,294	$ —	$ —
Agricore Ltd. acquisition	—	90,235	—	—
Actual return (loss) on plan assets	10,645	(3,886)	—	—
Employer contributions to:				
Defined contribution component	(2,630)	(3,063)	—	—
Defined benefit component	2,549	122	—	—
Other benefits	—	—	807	551
Employee contributions	109	142	—	—
Benefits paid	(10,353)	(13,787)	(807)	(551)
Fair value, end of year	$ 123,377	$ 123,057	$ —	$ —
Funded Status				
Plan surplus (deficit)	$ 8,340	$ 10,454	$ (11,366)	$ (9,083)
Unamortized transitional amount	(7,711)	(8,492)	—	—
Unamortized net losses	16,698	15,537	—	—
Deferred benefit asset (liability)	$ 17,327	$ 17,499	$ (11,366)	$ (9,083)

In fiscal 2003, $3.4 million of liabilities relating to future benefits were reclassified from accrued expenses.

The significant weighted-average assumptions used in measuring the Company's pension and other obligations were as follows:

	Pension Benefits		Other Future Benefits	
	As at October 31, 2003	As at October 31, 2002	As at October 31, 2003	As at October 31, 2002
Discount rate	6.25%	6.37%	6.50%	6.50%
Expected long-term rate of return on plan assets	6.75%	6.75%	n/a	n/a
Rate of compensation increase	4.00%	3.50%	n/a	5.00%

9. Bank and Other Loans

The Company has a $350 million revolving facility with a syndicate of banks, at prime rates plus up to 2% (subject to the Company's fixed charge ratio), expiring February 28, 2004. The revolving facility may be drawn to the lesser of the facility limit or a margin based on qualifying receivables and inventories. This facility is secured by a first floating charge over receivables and inventory and a second fixed charge over all other assets of the Company and its material wholly-owned subsidiaries.

In addition, a wholly-owned subsidiary has an undrawn $26 million revolving credit facility at 0.5% over LIBOR (London Interbank Money Market Offer Rate) that matured on October 31, 2003 (renewed for $24 million at 0.6% over LIBOR, maturing March 31, 2004) secured by a guarantee from the Company.

Loans from members and staff were $23.7 million (2002 – $31.0 million), and are repayable on demand, are unsecured and bear interest at rates varying from 3.25% to 5.50%.

10. Long-Term Debt

Long-term debt is comprised of the following:

(in thousands)	As at October 31, 2003	As at October 31, 2002
Syndicated term loan	$ 141,000	$ —
Term loan	—	150,770
Term notes	109,000	—
Series A notes	56,879	63,989
Series B notes	21,237	21,237
Cascadia Series B notes	50,000	50,000
Other long-term debt	9,883	11,985
Total term debt	$ 387,999	$ 297,981
Less: current portion	26,774	30,614
	$ 361,225	$ 267,367

The fair value of long-term debt approximates its carrying amount. The Syndicated term loan, Term notes, Series A notes and Series B notes are secured, pari passu, by specific charges over material

fixed assets and a floating charge over all other assets of the Company and its material wholly-owned subsidiaries.

Syndicated Term Loan

A floating rate term facility with a syndicate of banks at an interest rate fixed through a swap arrangement plus 1.5% to 3.5% (subject to the Company's fixed charge ratio) repayable in quarterly installments of $3 million between February 2003 and August 2004 and quarterly installments of $5.75 million between November 2004 and August 2007 with the balance due on November 30, 2007.

Interest rate swaps of $141 million at 6.65% (2002 – $150 million at 6.65%) with Schedule One banks are used to hedge the floating interest rate component of the Syndicated term loan. The fair value of the interest rate swap obligation is $11.5 million at October 31, 2003 (2002 – $12.6 million).

Term Notes

A term facility with a U.S. based life insurance company at a fixed rate of 9.67%, repayable in monthly installments of $454,000 between February 2004 and January 2009 and $973,000 per month from February 2009 to January 2016.

Series A and B Notes

Series A notes, with a syndicate of Canadian life insurance companies, at a fixed rate of 10.25% (2002 – 9.25%) are repayable in equal annual installments of $7.1 million in December of each year to maturity in 2010.

The Series B notes, with a syndicate of Canadian life insurance companies, at a fixed rate of 10.80% (2002 – 9.80%) are repayable in equal annual installments of $2.1 million in December from 2011 to 2020.

Cascadia Series B Notes

The notes, with a syndicate of Canadian life insurance companies, are collateralized by a first fixed and specific mortgage on the Cascadia Terminal as well as a pledge and charge on all leasehold land and interests. The notes are repayable in equal annual installments of $2.5 million in August from 2004 to 2023.

Other long-term debt is repayable within 12 years.

The aggregate amount of scheduled repayments of long-term debt in each of the next five years are as follows:

Years ending October 31 ***(in thousands)***

2004	$	26,774
2005		39,158
2006		40,828
2007		41,348
2008		75,332

11. Convertible Debentures

(in thousands)		As at October 31, 2003		As at October 31, 2002
Debt component of convertible debentures	**$**	**30,417**	$	—
Equity component of convertible debentures	**$**	**74,869**	$	—

On November 27, 2002, the Company issued $105 million of 9% convertible unsecured subordinated debentures (the "Debentures") maturing November 30, 2007, with interest payable semi-annually on May 31 and November 30. The Debentures are convertible, at the option of the holder, at any time prior to the maturity date at a conversion price of $7.50 per share or 133.3333 Limited Voting Common Shares per $1,000 principal amount of Debentures. The Debentures may not be redeemed by the Company prior to December 1, 2005. On or after December 1, 2005 and prior to December 1, 2006, the Debentures may be redeemed by the Company in whole or in part, on not more than 60 days' and not less than 30 days' prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume weighted average trading price of the Limited Voting Common Shares on the Toronto Stock Exchange for at least 20 trading days in any consecutive 30-day period ending on the fifth trading day prior to the date on which notice of redemption is given exceeds 125% of the conversion price. On or after December 1, 2006, the Debentures may be redeemed by the Company at any time at a redemption price equal to the principal amount thereof plus accrued and unpaid interest. The Company may, at its option and subject to regulatory approval, elect to satisfy its obligation to repay the principal amount of the Debentures which are to be redeemed or which have matured by issuing to the holders of the Debentures, for each $1,000 principal amount of Debentures, that number of freely tradable Limited Voting Common Shares obtained by dividing such principal amount by 95% of the Current Market Price. Current Market Price means an amount equal to the volume weighted average trading price of the Limited Voting Common Shares on the TSX for 20 consecutive trading days ending on the fifth trading day preceding the date of determination.

The Debentures are being accounted for in accordance with their substance and are presented in the financial statements in their component parts, measured at their respective fair values at the time of issue. The debt component has been calculated as the present value of the required interest payments discounted to non-convertible debt at the time the Debentures were issued. Interest expense is determined on the debt component, such component being reduced by the required semi-annual interest payments. The difference between the debt component and the face value of the Debentures is classified as equity. The equity component of the Debentures is increased over the term to the full face value by charges to retained earnings.

12. Other Long-Term Liabilities

(in thousands)		As at October 31, 2003		As at October 31, 2002
Post-employment benefits other than pension (note 8)	**$**	**11,366**	$	9,083
Reclamation provision and other liabilities		**25,181**		31,278
	$	**36,547**	$	40,361

The Company has an interest in a joint venture, Western Co-operative Fertilizers Limited ("Westco"). In 1987, Westco

discontinued manufacturing fertilizer at its two processing plants. Subsequent to the closures, Westco retained an independent consultant who estimated the site reclamation and decommissioning costs to be between $44 million and $61.5 million. In 2000, Westco, with the help of various consultants, developed conceptual reclamation plans for its former production facilities based on site assessments, environmental risk data and current technology available and accrued a provision of $51 million. The reclamation plans are designed to meet current regulatory requirements. Other long-term liabilities include the Company's pro rata share of the outstanding estimated costs as well as a further provision of $5 million accrued by the Company as part of its revaluation of the liabilities of Agricore Ltd. on acquisition. The Company provides no guarantee for the obligations of Westco.

13. Share Capital

Membership

The Company is governed by the United Grain Growers Act under which it has both members and shareholders. Members are customers of the Company and are entitled to elect 12 directors, who must be members of the Company. The Company's Limited Voting Common Shareholders are entitled to elect three directors, who cannot be members. Members who are not shareholders are not entitled to participate in any profit or distribution of the Company.

Employee Share Purchase Plan

Under the terms of the Company's Employee Share Purchase Plan (ESPP), qualifying employees may contribute from 1% to 7% of their basic earnings to the ESPP, with the Company contributing an amount equal to 50% of all employee contributions. Contributions are used to acquire shares, either from the open market or from the Company, based on share trading prices on the Toronto Stock Exchange.

Executive Stock Option Plan

Under the terms of the Executive Stock Option Plan (ESOP), eligible executives of the Company are entitled to receive options to acquire Limited Voting Common Shares (note 14).

The following stock options were outstanding at October 31, 2003:

Date Granted	Number of Shares	Exercise Price	Expiry Date	% Vested
Dec. 13/96	88,473	$ 10.20	2006	100%
Sept. 17/98	121,638	$ 11.50	2008	100%
Sept. 20/01	19,000	$ 10.30	2011	60%
Mar. 21/02	373,930	$ 9.70	2012	40%
	603,041			

As at October 31, 2003, the Company has reserved a further 432,592 shares (2002 – 421,297 shares) available for granting under the ESOP.

Member Share Purchase Plan

Under the Company's Member Share Purchase Plan (MSPP), eligible members may contribute to the MSPP by way of a cash payment or cash ticket deduction payment. Contributions and dividends paid are used to acquire shares, either from the open market or from the Company, based on share trading prices on the Toronto Stock Exchange.

Directors' Share Compensation Plan

Under the Directors' Share Compensation Plan (DSCP), the Company pays its directors a minimum of 25% and a maximum of 50% of their annual compensation through the issuance from treasury of Limited Voting Common Shares, based on share trading prices on the Toronto Stock Exchange.

(in thousands, except number of shares)	As at October 31, 2003		As at October 31, 2002	
	# of shares	Value	# of shares	Value
Authorized				
Preferred shares, issuable in series	unlimited		unlimited	
Limited Voting Common Shares	unlimited		unlimited	
Issued and Outstanding				
Series "A" convertible preferred shares, non-voting, $1 dividend per share, cumulative, convertible (1:1 basis), callable at $24				
Opening balance	1,105,158	$ 22,103	1,105,251	$ 22,105
Converted to common shares	(7)	—	(93)	(2)
Closing balance	1,105,151	$ 22,103	1,105,158	$ 22,103
Limited Voting Common Shares				
Opening balance	45,281,561	$ 438,249	16,804,724	$ 137,127
Issued				
Upon conversion of preferred shares	7	—	93	2
Directors share compensation plan	28,364	157	18,648	180
Public offering, net of issuing costs (after tax)	—	—	7,965,791	59,745
Consideration to Agricore Ltd. shareholders	—	—	20,492,305	241,195
Closing balance	45,309,932	$ 438,406	45,281,561	$ 438,249
Total		$ 460,509		$ 460,352

The issued and outstanding common shares along with securities convertible into common shares were as follows:

	As at October 31, 2003	As at October 31, 2002
Issued and outstanding Limited Voting Common Shares	**45,309,932**	45,281,561
Securities convertible into common shares:		
9% convertible unsecured subordinated debentures, maturing November 30, 2007, convertible at 133.3333 shares per $1,000 principal amount.	**14,000,000**	—
Series "A" convertible preferred shares, non-voting, $1 dividend per share, cumulative, convertible (1:1 basis), callable at $24	**1,105,151**	1,105,158
Stock options	**603,041**	614,336
	61,018,124	47,001,055

14. Stock Based Compensation

The Company recorded compensation expense of $306,000 (2002 – $336,000) and a related increase in Contributed Surplus regarding stock options issued under the terms of the Executive Stock Option Plan (note 13).

The exercise price of the option equals the market price of the Company's stock on the date of the grant. The fair value of each option granted since January 1, 2002 of $4.23 per share is estimated based on the date of grant using the Black-Scholes option pricing model and the following weighted average assumptions: dividend yield of 2.58%, expected volatility of 38%, risk-free interest rate of 5.8% and expected life of 10 years. The Options vest at a rate of 20% per year.

Options outstanding at October 31, 2003 have a range of exercise prices from $9.70 to $11.50 and a weighted average remaining contractual life of 6.89 years.

(in thousands, except price amounts)	12 months ended October 31, 2003		15 months ended October 31, 2002	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at the beginning of the period	**614,336**	**$ 10.15**	322,028	$ 11.56
Granted prior to January 1, 2002	—	—	19,000	10.30
Granted after January 1, 2002	—	—	409,322	9.70
Forfeited	**(11,295)**	**9.70**	(44,729)	10.25
Expired	—	—	(91,285)	13.10
Outstanding at end of period	**603,041**	**$ 10.16**	614,336	$ 10.15
Exercisable at end of period	**371,083**	**$ 10.43**	294,756	$ 10.61

15. Sales and Revenue from Services

Sales and revenue from services include export sales of $1,067 million (2002 – $1,161 million).

For the 2003 fiscal year, the Company retroactively adopted the CICA Emerging Issues Abstract 123 regarding reporting of revenue on a gross versus net basis for its presentation of handling revenue from the Canadian Wheat Board ("CWB"). As a result of this change in presentation, the Company reports the tariff revenue for handling CWB grains in its sales and revenue from services, rather than the gross billings for grain purchased on the CWB's behalf. Accordingly, sales and revenue from services excludes CWB billings of $790 million for 2003 (2002 – $1,118 million). There was no impact on gross profit and net revenue from services as a result of this change in presentation.

16. Related Party Transactions

The Company has transactions with related parties in the normal course of business at commercial rates and terms. Related parties include investees Prince Rupert Grain, The Puratone Corporation, Benson–Quinn–GMS Inc., Canadian Pool Agencies Limited, Interprovincial Cooperative Limited, Pool Insurance Company as well as the Company's principal shareholder Archer Daniels Midland Company and its respective subsidiaries and associated companies.

Total sales to related parties were $89,082,000 (2002 – $66,852,000) and total purchases from related parties were $33,657,000 (2002 – $28,416,000). As at October 31, 2003, accounts receivable from and accounts payable to related parties totalled $4,390,000 (2002 – $1,684,000) and $256,000 (2002 – $103,000), respectively.

17. Interest and Securitization Expenses

(in thousands)	12 months ended October 31, 2003	15 months ended October 31, 2002
Interest on:		
Convertible debentures – debt portion	**$ 3,530**	$ —
Long-term debt	**35,434**	34,978
Short-term debt	**11,030**	15,316
Securitization expenses	**2,461**	2,469
CWB carrying charge recovery	**(3,993)**	(4,355)
	$ 48,462	$ 48,408

18. Income Taxes

(a) The Company's income tax recovery consists of the following:

(in thousands)	12 months ended October 31, 2003	15 months ended October 31, 2002
Current income tax recovery (expense)	$ 1,268	$ (7,161)
Future income tax recovery		
On unusual items	—	1,525
Other	2,623	23,247
Income tax recovery on continuing operations	3,891	17,611
Future income tax expense on discontinued operations	(3,588)	(536)
Recovery of income tax	$ 303	$ 17,075

(b) The Company's effective tax rate is determined as follows:

(in thousands)	12 months ended October 31, 2003	15 months ended October 31, 2002
Income tax recovery at a combined statutory rate of 37.5% (2002 – 41.9%)	$ 1,008	$ 17,023
Manufacturing and processing deduction	81	635
Large corporation capital tax	(2,356)	(3,875)
Tax paid equity earnings (losses)	22	(305)
Non-taxable portion of capital gain	2,198	2,425
Expenses not deductible for income tax purposes	(1,100)	(986)
Utilization of previously unrecognized losses	—	1,308
Unrecognized benefit of subsidiary's loss	(599)	—
Effect of tax rate changes on future Income taxes	1,218	(1,144)
Miscellaneous	(169)	1,994
Recovery of income tax	$ 303	$ 17,075

(c) Significant components of the Company's future tax assets and liabilities are as follows:

(in thousands)	As at October 31, 2003	As at October 31, 2002
Future Tax Assets:		
Reserves and other liabilities	$ 15,686	$ 28,814
Other post employment benefits	4,092	3,542
Deferred pension costs	2,745	2,836
Other deferred charges	8,592	10,658
Capital assets	6,589	9,494
Non-capital losses carried forward	119,221	82,858
Other temporary differences	2,202	7,327
	$ 159,127	$ 145,529
Future Tax Liabilities:		
Capital assets	28,614	25,235
Trade investments	79,657	69,540
Deferred pension costs	8,983	9,896
Other deferred charges	3,944	316
Other	3,689	5,023
	124,887	110,010
Net Future Tax Asset	$ 34,240	$ 35,519
Comprised of:		
Future tax asset – current	$ 2,903	$ 10,911
Future tax liability – current	(259)	(303)
Future tax asset – non-current	36,111	29,165
Future tax liability – non-current	$ (4,515)	$ (4,254)

19. Commitments, Contingencies and Guarantees

The Company has operating leases, with varying terms up to 19 years, for office premises and equipment, various storage facilities and sites, application equipment, licensed vehicles as well as service purchase commitments. Future minimum payments under these commitments are as follows:

Years ending October 31 *(in thousands)*	
2004	$ 13,080
2005	10,848
2006	8,581
2007	4,569
2008	2,314
After 2008	5,451
	$ 44,843

Guarantees

LETTERS OF CREDIT – The Company has provided banking letters of credit to third parties for activities that are inherent to the nature of the agriculture industry. The terms range in duration and expire at various dates from November 2003 to January 2005. The amounts vary depending on underlying business activity or the specific agreements in place with the third parties. As at October 31, 2003, the outstanding banking letters of credit were $95 million (2002 – $37 million).

INDEMNIFICATION OF ACCOUNTS RECEIVABLE – Under the terms of an agreement with a financial institution (as described in note 4), the Company agreed to indemnify the financial institution for a portion of future losses incurred on an accounts receivable portfolio to a maximum limit of 5% of outstanding credit. No indemnity has been paid, however an amount of $1.7 million has been accrued at October 31, 2003 (2002 – $1.1 million) based on the provision for losses determined under the terms of the agreement.

LOAN GUARANTEES – The Company is contingently liable under several guarantees given to third-party lenders who have provided long-term financing to certain independent hog producers. As at October 31, 2003, the current outstanding balance of these guarantees is $4.8 million (2002 – $3.3 million). These guarantees reduce as the underlying loans are repaid and expire between 2006 and 2014.

DIRECTOR AND OFFICER INDEMNIFICATION – The Corporation indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Corporation to the extent permitted by law. The Corporation has acquired and maintains liability insurance for its directors and officers as well as those of certain affiliated companies.

OTHER INDEMNIFICATION PROVISIONS – From time to time, the Company enters into agreements in the normal course of operations and in connection with business or asset acquisitions or dispositions. By their nature, these agreements may provide for indemnification of counterparties. The varying nature of these indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could incur. Historically, the Company has not made any significant payments in connection with these indemnification provisions.

Contingencies

OTHER CONTINGENCIES – As of October 31, 2003 there are claims against the Company in varying amounts for which no provisions in the financial statements are considered necessary. The occurrence of the confirming future event is not determinable or it is not possible to determine the amounts that may ultimately be assessed against the Company with respect to these claims, but management believes that any such amounts would not have a material impact on the business or financial position of the Company.

CONTINGENT GAIN – On October 31, 2003 the Company agreed to settle the outstanding property tax appeals for its terminals in Thunder Bay in return for a revised assessment for the 1996 through 2003 tax years. As a result, the Company is expecting a property tax refund, the final amount of which is currently not determinable and accordingly no gain has been recorded as at October 31, 2003.

20. Segment Information

The Company has five reportable business segments operating primarily in western Canada: Grain Handling, Crop Production Services, Livestock Services, Financial Markets and Other Investments as well as Corporate Administration. Grain Handling revenues are earned from the sourcing of grain from producers for delivery to end users. Crop Production Services revenues are earned from the production and sale of crop input products and services through retail centres and country elevators. Livestock Services revenues are derived from the manufacture and sale of livestock feed and related services. Financial Markets and Other Investments include the activities of Agricore United Financial and foreign exchange trading activities as well as the activities of other investments. The Corporate segment contains no revenue and is comprised of corporate costs and other centralized activities that are not specific to other business segments. During the year the Company sold its Farm Business Communications business segment (note 24).

The Company has not provided revenues from external customers by geographic location as it is not practicable to do so. There are no material property, plant and equipment located in foreign countries.

Segment information is summarized as follows:

(in thousands)	12 months ended October 31, 2003	15 months ended October 31, 2002
Sales and revenue from services:		
Grain Handling	**$ 1,639,626**	$ 1,926,447
Crop Production Services	**856,167**	717,393
Livestock Services	**258,220**	333,971
Financial Markets and Other Investments	**8,952**	14,214
Less: Intersegment sales	**(36,334)**	(29,407)
	$ 2,726,631	$ 2,962,618
Gross profit and revenue from services:		
Grain Handling	**$ 154,993**	$ 230,345
Crop Production Services	**204,480**	149,215
Livestock Services	**40,389**	53,646
Financial Markets and Other Investments	**8,952**	14,214
	$ 408,814	$ 447,420

(in thousands)	12 months ended October 31, 2003	15 months ended October 31, 2002
EBITDA:		
Grain Handling	**$ 18,599**	$ 70,950
Crop Production Services	**97,587**	31,224
Livestock Services	**9,718**	14,925
Financial Markets and Other Investments	**8,952**	11,227
Corporate	**(34,325)**	(52,248)
	$ 100,531	$ 76,078
EBIT:		
Grain Handling	**$ (17,093)**	$ 30,442
Crop Production Services	**73,184**	4,833
Livestock Services	**6,499**	10,977
Financial Markets and Other Investments	**8,952**	9,167
Corporate	**(43,611)**	(62,094)
	$ 27,931	$ (6,675)

(in thousands)	As at October 31, 2003	As at October 31, 2002
Assets:		
Grain Handling	**$ 853,904**	$ 891,152
Crop Production Services	**512,355**	456,801
Livestock Services	**114,380**	115,997
Financial Markets and Other Investments	**10,985**	4,993
Corporate	**100,359**	119,588
	$ 1,591,983	$ 1,588,531
Intangible Assets:		
Grain Handling	**$ 6,500**	$ 6,804
Crop Production Services	**10,002**	10,004
	$ 16,502	$ 16,808
Goodwill:		
Grain Handling	**$ 4,926**	$ 4,926
Crop Production Services	**21,463**	20,098
	$ 26,389	$ 25,024

21. Financial Instruments

Forward Foreign Exchange Contracts

Foreign currency amounts are translated at the balance sheet date. The "sell" amounts represent the Canadian dollar equivalent of commitments to sell foreign currency.

As at October 31, 2003 *(in thousands)*	Type	18 months
U.S. dollars	Sell	**$ 202,857**
Euro	Sell	**$ 6,047**
British Pounds	Sell	**$ 44**

Fair Values of Financial Assets and Liabilities

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments:

- Short-term financial instruments are valued at their carrying amounts included in the balance sheet, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments.
- Rates currently available to the Company for long-term debt with similar terms and remaining maturities are used to estimate the fair value of existing borrowings as the present value of expected cash flows.

- The fair value of derivatives generally reflects the estimated amounts that the Company would have to pay, or would receive, upon termination of the contracts at the reporting date, thereby taking into account the current unrealized gains or losses of open contracts.

22. Interest in Joint Ventures

The Company's interest in its joint ventures is recognized using the proportionate consolidation method at rates that approximate either the Company's ownership interest in, or the volume of business with, the respective joint venture.

(in thousands)	As at October 31, 2003	As at October 31, 2002
Balance Sheet		
Current assets	$ 106,913	$ 98,286
Long-term assets	112,943	84,208
Current liabilities	(28,133)	(38,854)
Long-term liabilities	(8,648)	(10,695)
Other long-term liabilities	(19,911)	(26,177)
Net investment in joint ventures	$ 163,164	$ 106,768

	12 months ended October 31, 2003	15 months ended October 31, 2002
Statement of Operations		
Revenues	$ 69,665	$ 77,421
Expenses	(26,140)	(34,020)
Income tax recovery (provision)	3,274	(4,852)
Net income	$ 46,799	$ 38,549
Statement of Cash Flows		
Cash provided by (used in):		
Operating activities	$ 54,821	$ 38,795
Investing activities	(9,194)	(17,069)
Financing activities	(21,741)	(6,678)
Increase in cash and cash equivalents	$ 23,886	$ 15,048

23. Restructuring Plan

The Company's comprehensive restructuring plan to rationalize its country operations involves the expected closure and demolition of the remaining 114 inactive or unlicensed locations by October 31, 2004. The expenditures to date and the remaining provision outstanding to complete this restructuring plan is summarized below.

(in thousands)	Opening balance	Application to provision	Closing balance
Demolition costs	$ 5,733	$ (3,386)	$ 2,347
Other cash costs	2,581	(374)	2,207
Total	$ 8,314	$ (3,760)	$ 4,554

24. Discontinued Operations

Effective September 30, 2003, the Company completed the sale of the net assets of its Farm Business Communications division for $14.4 million in cash and $1.6 million of net liabilities assumed by the purchaser. Cash of $12.2 million was received on closing and the remaining $2.2 million is to be received in equal installments over the next three years. The Company realized a pre-tax gain on disposal of $15.0 million (net of disposal costs of $674,000).

For reporting purposes, the results of operations of this business segment and the gain on sale of the segment have been presented as discontinued operations. Accordingly, prior period financial statements, including segment information as disclosed in note 20, have been reclassified.

Sales and revenue from services for the segment were $10.4 million (15 months ended October 31, 2002 – $12.8 million) and pre-tax income was $1.3 million (15 months ended October 31, 2002 – $1.5 million).

(in thousands)	12 months ended October 31, 2003	15 months ended October 31, 2002
Earnings from discontinued operations, net of income tax	$ 821	$ 954
Gain on sale of discontinued operations, net of income tax	11,887	—
	$ 12,708	$ 954

Divestiture of business segment

(in thousands)	As at October 31, 2003
Property, plant and equipment	$ 314
Disposal costs	674
Gain on disposal	15,012
Total sale price	$ 16,000
Cash received	$ 12,200
Promissory note	2,162
Net current liabilities assumed by purchaser	1,638

25. Unusual Items

Unusual Items represent transactions that do not typify normal business activities of the Company.

October 31, 2002

In connection with the merger effective November 1, 2001, the Company undertook a restructuring of the organization. For the 15 months ended October 31, 2002, the acquirer's expenses relating to this restructuring were $4.2 million ($2.7 million net of tax), comprised principally of severance costs.

26. Accounting Changes

Goodwill and Other Intangible Assets

Effective November 1, 2002, the Company adopted the new CICA recommendations with respect to goodwill and other intangible assets. The new standard no longer permits the amortization of goodwill and indefinite life intangible assets but requires a fair value impairment test to be performed annually. The impact of no longer recording this amortization does not have a material impact on the financial statements. The Company has evaluated each of its goodwill and indefinite life intangible asset balances (which have been allocated to a reporting unit) and has found no impairment.

27. Comparison Profit and Loss and Cash Flow Information

To provide a basis of comparison to the current year, the following table shows the components of profit and loss as well as cash flow segregated between the three month period ended October 31, 2001 and the 12 month period ended October 31, 2002:

Unaudited Pro forma Consolidated Earnings Information

(in thousands)	Unaudited 12 months ended October 31, 2002	Unaudited 3 months ended October 31, 2001	15 months ended October 31, 2002
Sales and revenue from services	$ 2,702,675	$ 259,943	$ 2,962,618
Gross profit and revenue from services	411,384	36,036	447,420
Operating, general and administrative expenses	(336,659)	(34,683)	(371,342)
Earnings before the undernoted	74,725	1,353	76,078
Depreciation and amortization	(75,102)	(7,651)	(82,753)
	(377)	(6,298)	(6,675)
Gain on disposal of assets	17,209	12	17,221
Interest and securitization expenses	(44,645)	(3,763)	(48,408)
	(27,813)	(10,049)	(37,862)
Unusual items	(4,236)	—	(4,236)
Discontinued operations – net of income tax	972	(18)	954
Recovery of income taxes:			
On unusual items	1,525	—	1,525
On loss from continuing operations before unusual items	12,036	4,050	16,086
Net loss for the period	$ (17,516)	$ (6,017)	$ (23,533)

Unaudited Pro Forma Consolidated Cash Flow Information

(in thousands)	Unaudited 12 months ended October 31, 2002	Unaudited 3 months ended October 31, 2001	15 months ended October 31, 2002
Cash flow provided by operations	$ 22,070	$ (76)	$ 21,994
Changes in non-cash working capital	59,365	(39,717)	19,648
Cash flows from investing activities	44,496	(4,077)	40,419
Cash flows from financing activities	(86,814)	43,091	(43,723)
Change in cash position	$ 39,117	$ (779)	$ 38,338

28. Comparative Amounts

Certain comparative amounts have been reclassified to conform to current year presentation.

discussion on

Corporate Governance

Agricore United's Board is established in accordance with the provisions of the United Grain Growers Act, a special act of the Parliament of Canada, passed in 1992, which requires that the Board of Directors consist of fifteen directors, twelve of whom are "member directors" elected at the annual meeting of members and three of whom are "non-member directors" elected at the annual meeting of holders of the Limited Voting Common Shares. Members, many of whom are also shareholders, are farming customers of Agricore United who have done at least $10,000 of business with the Company during the past 24 months. Two of the non-member shareholders represent Archer Daniels Midland Company, one of Agricore United's largest end-use customers and largest shareholder with approximately 20 percent of the voting share of the Company. The other non-member is elected at the annual shareholder meeting of the holders of Limited Voting Common Shares. The position is currently held by Jon K. Grant, former Chairman of the Laurentian Bank of Canada and of CCL Industries Inc.

As noted in the Chairman's letter, the Company ranked 67th out of 207 firms that were rated by the Globe and Mail's *Report on Business Magazine* in its September, 2003 ranking of corporate governance in Canada, with particularly high marks for "board composition" and "shareholder rights".

The starting point for corporate governance is the Board's Code of Conduct that guides the overall behaviour of the Board and directs each member to:

- Act in the best interests of the Company at all times
- Demonstrate strong ethics and integrity
- Avoid conflict of interest or the perception of conflict of interest
- Maintain confidentiality of all Company and Board matters
- Comply with all laws, regulations and Company policies

Except as limited by its Act of Incorporation and its strategic alliance with Archer Daniels Midland Company, the Company conforms to guidelines published by the Toronto Stock Exchange (TSX) with respect to corporate governance and discloses its approach to corporate governance annually in its Management Proxy Circular.

Beyond these steps, the Board periodically reviews the Board and committee mandates to ensure they align with best practices in corporate governance. During 2003, the Board completed one such review with the participation of outside professional advisors who specialize in corporate governance.

The Board oversees the management of the Company and delegates day-to-day management of Agricore United to the Chief Executive Officer (CEO) and his executive officers. The Chief Executive Officer is not a member of the Board and all directors are independent of management. James (Jim) Wilson acts as Chair of the Board and also chairs the Executive and the Agriculture Policy Committees.

"the Board's composition **reflects shareholders as well as corporate and farming customers** – enabling the Board to both align itself with the customer-focussed strategy of the Corporation while acting on behalf of shareholders in **building value for all.**"

Agricore United's Board discharges many of its responsibilities through committees for which it has established mandates that can be summarized as follows:

- **THE EXECUTIVE COMMITTEE** is comprised of the Chair, First Vice Chair and the three Provincial Vice Chairs. The committee meets and acts on behalf of the Board on an as required basis respecting urgent matters between Board meetings.

- **THE AUDIT COMMITTEE** assists the Board in fulfilling its governance responsibilities including oversight and monitoring of: financial information provided to the shareholders and others; the quality of the Company's internal and financial controls; the audit processes; compliance with legal and regulatory requirements; and the Company's Code of Business Conduct.

  The Audit Committee maintains free and open communication with the external auditors, the internal auditors and management of the Company.

  The Audit Committee is composed of six directors, all of whom are independent of the management of the Company and are free of any relationship that would interfere with their exercise of independent judgment as a committee member.

- **THE COMPENSATION/PENSION COMMITTEE** advises the Board with regard to guidelines for all employee compensation, benefits and pension matters. In fulfilling this purpose the committee considers the Company's need to recruit, retain and motivate employees and to compensate employees on a pay-for-performance basis.

- **THE RISK MANAGEMENT COMMITTEE** ensures that management has identified the principal risks of the Company's business (including environmental risks) and that appropriate systems are implemented to manage those risks.

- **THE NOMINATING AND GOVERNANCE COMMITTEE** develops the Company's approach to governance issues in general and is responsible for establishing the processes for assessing the effectiveness of the Board as a whole, the committees of the Board, and each individual director. The committee identifies, recruits, nominates, endorses and recommends appointment of new non-member directors, other than the ADM nominees, is responsible for identifying and communicating to members, delegates and other stakeholders, the roles, responsibilities, skill sets and attributes of potential member directors of the Company to assist members in determining if they wish to seek nomination as member directors. The committee also ensures orientation programs are in place for all new directors.

- **THE AGRICULTURAL POLICY COMMITTEE** advances and promotes the interests of the Company and its customers in agricultural policy areas and advises management on related issues. The committee includes all directors of the Company and

  – Receives members' resolutions passed at annual members' meetings and acts on those resolutions as it sees fit.

  – Identifies emerging issues of importance to the Company and develops policy respecting such issues.

  – Appoints representatives to various trade and industry organizations and receives reports and recommendations of those representatives so that the Company's activities and policies address current agricultural business issues.

- **THE MEMBER AND COMMUNITY RELATIONS COMMITTEE** oversees the Company's policies related to corporate giving, donations to industry and trade organizations and member scholarships and seeks means to enhance the advisory role of members and delegates in the Company's activities.

The Board ensures that the Company communicates effectively with its shareholders, other stakeholders and the public in a timely, effective, accurate and balanced manner. Continuous disclosure material sent to shareholders is reviewed and approved by the Board or the appropriate Board committee. The Board has a written disclosure policy that governs these matters. Senior executives, including the CEO and the Vice President of Investor Relations, meet regularly with financial analysts and institutional investors. Quarterly earnings conference calls with investors, analysts and media are broadcast live as well as archived on the corporate Web site and are accessible on a recorded basis for interested people. Selected presentations to investor conferences are also available on the corporate Web site.

The Board's composition reflects shareholders as well as corporate and farming customers – enabling the Board to both align itself with the customer-focussed strategy of the Corporation while acting on behalf of shareholders in building value for all.

Officers, Directors, Committees & Shareholder Information

Officers

James M. Wilson
Chair

Brian Hayward
Chief Executive Officer

Peter G. M. Cox
Chief Financial Officer

Tom Kirk
Corporate Secretary

Directors

James M. Wilson 1, [2]*, [3]*, [4]*, 5, 6, [7]*
Chair
Darlingford, Manitoba

Jon K. Grant 1, 2, 5, 6
First Vice Chair
Peterborough, Ontario

Wayne W. Drul 1, 3, 4, 5
Manitoba Vice Chair
Oakburn, Manitoba

Terry V. Youzwa 1, 2, 5, 6
Saskatchewan Vice Chair
Nipawin, Saskatchewan

Maurice A. Lemay 1, 2, 5, 7
Alberta Vice Chair
Tangent, Alberta

Theodore M. Allen 1, 3
Calgary, Alberta

G. Allen Andreas 1, 2
Decatur, Illinois

Hugh F. Drake 1, 4, 7
Elkhorn, Manitoba

Brett R. Halstead 1, 4, 7
Nokomis, Saskatchewan

Alanna L. Koch 1, 2, 6
Edenwold, Saskatchewan

Donald W. Lunty 1, 4, 7
Forestburg, Alberta

Paul B. Mulhollem 1, 3
Decatur, Illinois

Robert D. Pettinger 1, 3, 6
Elgin, Manitoba

Neil D. Silver 1, 3, 4
Huxley, Alberta

Ernest J. Sirski 1, 2, 7
Dauphin, Manitoba

Committees
1. Agricultural Policy Committee
2. Audit Committee
3. Compensation/Pension Committee
4. Risk Management Committee
5. Executive Committee
6. Nominating and Governance Committee
7. Member and Community Relations Committee

* ex officio

Auditors

PricewaterhouseCoopers LLP

Banks

The Bank of Nova Scotia
National Bank of Canada
Rabobank International
HSBC Bank Canada

Stock Exchanges

Toronto Stock Exchange

Stock symbols:
- AU – Limited Voting Common Shares
- AU.DB – 9% convertible unsecured subordinated debentures
- AU.PR.A – Series 'A' preferred shares

Transfer Agent

ComputerShare Trust
Company of Canada

Address for Shareholder Inquiries

Agricore United
TD Centre
201 Portage Avenue
P.O. Box 6600
Winnipeg, Manitoba
Canada R3C 3A7

Telephone: 204-944-3664
Toll free: 1-800-661-4844
Facsimile: 204-944-5543

www.agricoreunited.com

Incorporated July 20, 1906

Annual Meeting

The annual shareholders' meeting will be held at 9:30 a.m., Wednesday, February 11, 2004 at The Fantasyland Hotel, 17700-87th Avenue, Edmonton, Alberta.

Trademarks

List of trademarks used in this report:
- Agricore United™
- Agricore United Financial™
- Unifeed™
- Proven® Seed

"Agricore United operates in a vital, dynamic industry. We are convinced the Company is well-positioned to pursue opportunities that will capture exceptional value for our customers and shareholders."

JIM WILSON – CHAIR, AGRICORE UNITED

Agricore United™

www.agricoreunited.com